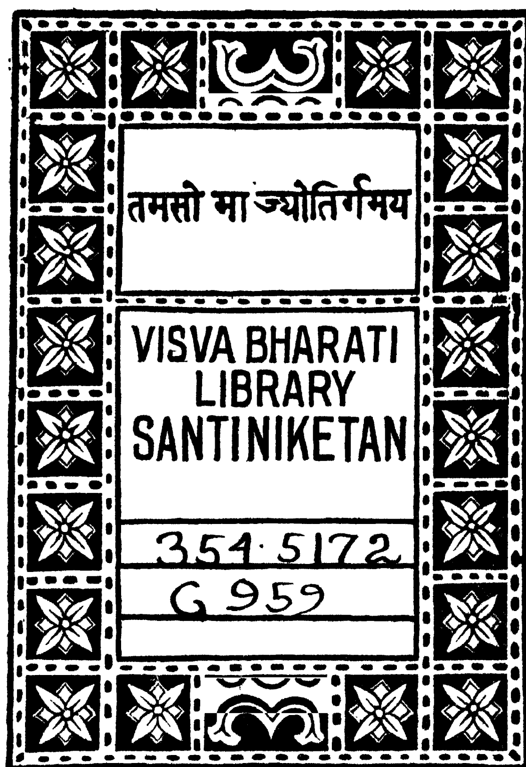

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GOVERNMENT BUDGETING

With Special Reference To India

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TO

the revered memory of Dr. P. J. Thomas
who guided this project and aroused
interest in the subject

PREFACE

The study of Government Budgeting is a study in Applied Economics. The economy of a country is greatly influenced by the budgetary actions of the Government. Government budgeting is one of the major processes by which the use of public resources is planned and controlled. To this extent this is done well, governmental programmes are brought increasingly to the service of citizens, enhancing their material and moral status. Ours is an organised society and a society of organisations, and the Government is the biggest organisation of a country. Government performs its functions with the help of its budget and within the limits fixed in the budget. Budget occupies a leading place among the special tools of the Government, employed to direct and control the affairs of a nation. The present study, based on the thesis that qualified for the degree of Doctor of Philosophy of the Agra University in 1963, attempts to present the theoretical aspect of Government Budgeting with special reference to India. An analytical study of the budgets of the Indian Union for the period of 1950-51 to 1964-65 has been made. This period has a special importance as it ushered in a new era of economic planning in the country.

I am highly thankful to the Librarians of, Parliament Library, New Delhi; Central Secretariat Library, New Delhi; Indian Institute of Public Administration, New Delhi; National Library, Calcutta; and Agra University Library for making me available the library facilities. I am also grateful to the Librarian of the Finance Library, Ministry of Finance, Government of India and the Budget Officer of the Ministry of Railways Government of India for supplying budget papers and information required by me. I also express my gratitude to Shri S. L. Shakdher, the Secretary Lok Sabha Secretariat, Parliament House, New Delhi who made very useful suggestions in the outline of my research project. In spite of his heavy engagements he was very kind to study in detail the outline and made detailed suggestions.

My deep reverence and gratitude goes to my research guide late Dr. P. J. Thomas, M.A., B.Litt., D.Phil. (Oxon) formerly

Economic Adviser to the Government of India and Member of Parliament (2nd Rajya Sabha), who readily acceded to my request of supervising my research project and in spite of his old age read the MSS and made useful suggestions and comments. It is due to his help and inspiration that I could complete the work. I have no words but feelings of heart to accept his obligations. He was to write a foreword to this book, but it is to my misfortune that he passed away in July, 1965 and I could not get his blessings in words.

I also pay my reverence to my teacher Dr. T. R. Sharma, Professor and Head of the Commerce Department, Balwant Rajput College, Agra who taught me from 1946 to 1952 and whose affectionate 'Ashirvad' has inspired me in my academic pursuits. I am grateful to Dr. A. N. Agarwal, Allahabad University and Dr. D. S. Nag of Jabalpur University for making useful suggestions for making the thesis fit for publication.

Gwalior B. N. GUPTA

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CHAPTER I

DEVELOPMENT OF GOVERNMENT BUDGETING

"The budget strange fish and monster vast.
To which from all sides the hook is cast."
Victor Hugo

"Annual budget leech aspiring.
That sucks what the people sweat in acquiring."
Bartholomew

THESE ARE humorous remarks made by two great poets about the budgets of a government. In modern times the budget is regarded neither a strange fish nor something that sucks what the people sweat in acquiring. These statements take into account the pain caused by taxes imposed through a budget and not the pleasure of public expenditure provided in it. A budget occupies a leading place among the special tools of the government employed to direct and control the affairs of a nation. The budget has played an important part in the history of all countries. As a matter of fact, there are few rights or political principles of greater importance to a nation than the plans, formed in advance, to determine what public revenues shall be raised and what expenditure shall be authorised. Ours is both an organised society and a society of organisations. Government is the biggest organisation of a country influencing every aspect—political, economic, social, etc. of the people through its activities. It is through budgeting that a modern government runs. Government budgeting is one of the major processes by which the use of public resources is planned and controlled. To the extent this is done well, governmental programmes are brought increasingly to the service of the citizens and enhance their material and cultural status.

In 1934 Mr. A. E. Buck remarked that, "the budget is destined to become even more necessary to the governments of the future than it is to those of the present". This remark is justified by the position a budget occupies in all modern governments today. There was a time when the budget was considered merely a report for the information of the legislature; but now the budget controls and directs the economic affairs of a country.

BUDGET PREROGATIVE

The development of government budgeting is related to the growth of representative government. The principle that 'the representatives of a nation must vote the public revenues and expenditures' has become so fairly established in our day that one is easily led to believe that this right or principle has always existed. It may be asked, why citizens should have the right to authorise their representatives to look after the revenue and expenditure of the State. Some people argue that those who contribute to the public treasury have the right to approve the taxes imposed because they are the ones who pay them. This argument is not a correct one, because the obligation to pay taxes does not carry with it the right of regulating public revenue and public expenditure or budget-making. A slave nation under the rule of a foreign country does not have the right to determine taxes to be paid by it. Old kings collected taxes from their subjects and no citizen questioned the right of tax collection and the way of spending the money collected from taxes. During the British rule in India, the right to determine taxation and control of public expenditure was not given to the public.

The constitutional right, which a nation possesses, to entrust its representatives with public revenues and public expenditure does not originate from the fact that the citizens of a country contribute towards the public fund. The right is based on a loftier idea—the idea of sovereignty. It is only when sovereignty rests with a nation that the people acquire the right to entrust their representatives with public revenues and expenditure. In case a nation does not enjoy sovereignty, it would not have the right to control the public purse. This right of controlling the public purse may be called 'Budget Prerogative'.

The right to control the public purse is not proportionate to the amount paid in taxes. The citizen, who pays a large amount to the State and the citizen who pays a small amount or no amount at all have equal voice in the exercise of the control over the public purse. It is sufficient to be a voter in order to exercise one's share of influence upon the budgetary policy of the country. Even a beggar or an old man or a disabled

person who does not pay taxes and who may be fed, sheltered and taken care of by the State through the medium of charitable institutions or social insurance retains this prerogative. He co-operates in proportion to his vote in the making of the budget of the country. In the words of M. Leon Say, "Every member of society or of a nation exercises a share of control over the purse or the budget prerogative, corresponding to the share of sovereignty vested in him".[1]

Since the budget prerogative is an attribute of the legal right of ultimate control or sovereignty, the securing of this right was acquired, like other political rights, after violent struggles. The principle, 'the right to control over public revenues and expenditures rests with the representatives of the nation' had to undergo the test of the most terrible revolutions before it found a permanent place in our constitutions. The history of these revolutions show the importance of budget prerogative in the life of a nation.

DEVELOPMENT OF GOVERNMENT BUDGETING IN ENGLAND

England has outdistanced other nations in matters of financial administration. Government budgeting took its roots in this country, from where it spread to all other countries. In the U.K., the budget system emerged along with Parliamentary control over the Crown. The budgetary system developed as part of the growth of people's control over the Crown. We have to go to the earliest times to the days of the Magna Carta to find out the roots of the British budgetary system. The 12th Article of the Magna Carta states :

> "No scutage or aid shall be imposed in the Kingdom unless by the commom council of the realm, except for the purpose of ransoming the King's person, making his first born son a knight and marrying his eldest daughter once, and the aids for this purpose shall be reasonable in amount."

Though the Magna Carta did not give the people the right of control over taxation, but it surely laid the foundations on

[1] Rene Stourm, *The Budget*, p. 8

which that right has been steadily built. In those days, people were not concerned with the Crown's expenditures but they were very much concerned with the taxes imposed on them by the Crown. Dr. J. Burkhead states that, "In fact, the long history of struggle for parliamentary control of the purse was a struggle for control over taxation. The control over expenditure came much later, and as a by-product of the concern for the protection of taxpayers".[2] In early days, the Crown used to impose taxes for meeting a particular expenditure. The funds thus raised were specifically to be used for that purpose alone and no other. For example, Charles II imposed taxes for the prosecution of a war against the Dutch.

With the Revolution of 1688 and the Bill of Rights in the following year, it was provided, "Henceforth shall no man be compelled to make any gift, loan or benevolence or to pay tax without common consent by Act of Parliament."

The Parliament, while enforcing this right, reserved to itself the right to authorise all expenditures of the Crown. The Parliament at that time did not extend its authority over the purposes of expenditures, because this would have been regarded as an unwarranted restriction on the power of the Crown. Only gradually details of expenditures were controlled. Such control was first extended to defence expenditure only. Thus the seed of appropriation was sown. Later on, whenever Parliament voted a grant, it specified the purpose and the Government could not spend it on any purpose other than the one determined by the Parliament. Such practice is well established in the present time. Similarly the accountability of the Government to Parliament also dates back to 13th or 14th century when Parliament, after the money had been spent in certain cases, called for an account from the King as to how money was spent.

Mr. Paul Einzig in his book 'The Control of the Public Purse' states: "It is an inescapable historical fact that the House of Commons owes its origin and early development almost entirely to its sordid financial functions. Parliaments in most other countries originated as a culmination of movements aiming at political freedom—freedom of speech, freedom of the press, independent administration of justice, freedom of religious worship, freedom

[2] J. Burkhead, *Government Budgeting*, p. 3

from alien domination. The British Parliament, on the other hand owed its origin and its existence during the vitally important formative period, between the 13th and 17th centuries, almost entirely to the Englishmen's age old determination not to be taxed without his consent." Gladstone in a speech at Hastings on 17th March, 1891 summed up the position as follows :

"The finance of the country is ultimately associated with the liberties of the country. It is a powerful leverage by which English liberty has been gradually acquired. If the House of Commons by any possibility lose the power of the control of the grants of public money, depend upon it, your very liberty will be worth very little in comparison. That powerful leverage has been what is commonly known as the power of the purse — the control of the House of Commons over public expenditure.[3]

"Every tax shall be approved by the representatives of the people". This right to control the public purse or so to say, the budget prerogative was written in England's oldest Charters. Macaulay says that, "This right is so ancient that none can say when it began to exist. It was established as a principle that the King could not legislate without the consent of the parliament".[4]

In the 15th century, Commines wrote as follows—"In my judgement from all the states of the world of which I have knowledge, England is the country in which public affairs are best administered".[5] Thus at the time of the Second Revolution which brought William of Orange to the throne, that is, since 1688, we find the budgetary system of England almost perfectly established. Thus Government budget became a significant statement of a Governmental policy and budgetary procedure was an important feature in the formulation of such a policy. But, till then, budgeting was a mechanical feature. Other developments took place later on. Upto 1688 we can only say that it was the first phase of the development of Government budgeting. The second phase goes on from 1688

[3] *Journal of Parliamentary Information,* p. 20, Vol. VII, no. 1
[4] *Budget,* Rene Stourm, p. 9
[5] Quoted by Rene Stourm, p. 9

to 1856 when Gladstone became the Chancellor of the Exchequer. During this period, various terms like 'Money Bill', 'Consolidated Fund', 'Supplementary Grants', etc. were evolved when concrete cases or difficulties arose.

Beginning with the Peel-Gladstone era in 1840, D. H. MacGregor states, "The Budget became no mere statement of accounts, but was presented with a wealth of judgement, reflection and imagination which gave it . . . an indisputable place in the political economy of finance".[6]

It was due to the genius of Gladstone that budgeting occupied such an important place in the national economy. He was a great reformer in the field of financial procedure. It was he who introduced the concept of a Public Accounts Committee. It was in his time that the office of the Comptroller and Auditor-General was created and the Exchequer and Audit Departments Bill of 1866 was passed. Gladstone's contribution in the Government budgeting was of such an importance that it can be said of him, "Just as Macaulay made thousands read history who before had turned from it as dry and repulsive, so Mr. Gladstone made thousands eager to follow the public balance sheet and the whole nation became his audience, interested in him and his themes and in the House where his dazzling wonders were performed".[7] Since then the budget continued to be the major instrument for the expression of the Government's programme and policy.

It is also very interesting to trace the development of 'Exchequer' in the U.K. This dates back to the time of King Henry I, when he collected around him a small group of administrators, selected from the baronage and the clergy. When it sat for financial purposes, this body constituted the Exchequer (SCACCARIUM). The name came from the chequered cloth which covered their table. In course of time the Exchequer split up into two parts with different functions . . . the Upper Exchequer (or Exchequer of Account) which sat as a court of law to hear cases relating to the royal revenues; and the Lower Exchequer (or Exchequer of Receipts) which was an administrative group of officials responsible for collecting the revenues

[6] D. H. MacGregor, *Public Aspects of Finance,* p. 12
[7] Quoted by MacGregor, p. 45

and for making payments out of them for the King's purposes. The Court of the Exchequer maintained its separate existence until late in the 19th century when it became, in the first place, a Division of the High Court and, finally, in 1880 lost its identity by being merged into the Queen's Bench Division of the High Court.

DEVELOPMENT OF GOVERNMENT BUDGETING IN THE U.S.A., AN EARLY HISTORY

In the U.S. the budget system developed almost a century later than in Western Europe.

The long delay in the development of a unified budgetary procedure was due to political changes, caused by American Revolution. At the time of the American Revolution, the budget system of Great Britain was not fully developed. There was no accepted British practice which could be adopted by the framers of American Constitution. The American political system was established in an age of fear of excessive concentration of power in a single branch of Government. The law making power was granted to congress and this power included budgeting. The legislation was to take the spending and taxing decisions, and the role of the President consisted in his right of Veto along with the responsibility of executing budget items. There was a continuous struggle for domination. The struggle had already commenced during the Revolutionary war. The institutions of the national Government developed between 1775 and 1791. It was generally believed that administrative work should be performed through committees, though the inefficiency of such a system was also well recognised. Throughout the greater part of this period, the financial tasks of the Government were left in the hands of a Treasury Board. In the eyes of many legislators, even this was an unavoidable delegation, to the executive, of authority that might not safely be exercised by a legislative committee.

Despite the desire of the Congress to retain responsibility for both, the preparation and the authorisation of the budget, the Treasury Act created, a Treasury with a single head and thus paved the way for a contest between Congress and the executive

branch for dominance in budgetary matters. The first Secretary of the Treasury, Mr. Alexander Hamilton, and the Congress of that time were unwilling to establish a unified budgetary process. But Mr. Hamilton acted virtually as a Minister of Finance assuming authority to draw up plans for both revenues and expenditures. Because of the impossibility of devoting sufficient time to budgetary matters, Congress tended to accept his recommendations, and referred all financial issues to him. But, gradually opposition to this tendency was also gaining ground and the movement towards the return of the spending authority to Congress got under way under the lead of Mr. Gallatin. When he became secretary in 1801, he recommended that the committee on Ways and Means, established in 1796, be transformed into a standing committee to examine Treasury reports on all budgetary matters including, revenues, expenditures and public debt.

The establishment of a responsible Ways and Means Committee assured Congress of domination in expenditure matters. In 1814, however, this committee was relieved of the burden of its appropriation function. The resulting establishment of a standing committee on appropriation caused a curtailment of responsibility of the Congress and its power of imposing taxes and spending moneys. This prevented, for a hundred years, unified congressional budgetary action.

The decentralisation of power over appropriation did not prove detrimental in the period upto Civil War. Spending by the federal Government by that time was not large. The prevalent view was that a federal Government should play a relatively unimportant role in the economic life of the nation. But, after Civil War, there was a change in this philosophy. Rapid growth of population, accumulation of capital, growth of monopoly power and increasing concentration of wealth gave rise to a feeling that the federal Government should exercise a greater control over economy. This would mean, in fiscal matters, a centralised supervision of appropriation and taxation. From 1802 to 1865, both revenue and appropriation authorities were concentrated in the House Committee on Ways and Means. During this period, the Secretary of the Treasury continued to present his annual report and at the beginning of each session

of the Congress, a Book of Estimates, setting forth the expenditure requirements of the various departments and agencies. The Secretary performed merely clerical functions. He classified the expenditure proposals and transmitted them to the Congress. He did not criticize, alter, reduce or co-ordinate the proposals. The Cabinet did not serve as an agency for financial planning.

During this period, Ways and Means Committee served as a planning mechanism. In the beginning of 1865 a separate House Appropriation Committee was established, and thereafter such unity, as had prevailed in congressional review of the budget, began to go to pieces. By 1885 there were eight committees of the House with authority to recommend appropriations. Later this was increased to ten in the House. The period from 1880 to 1909 was of extreme laxity in federal finance. James Bryce has described this tendency of American finance in the following words :

> "Under the system of congressional finance here described, America wastes millions annually. But her wealth is so great, her revenue so elastic, that she is not sensible of the loss. She has glorious privilege of youth, the privilege of committing errors without suffering from their consequences".[8]

THE MOVE TOWARDS MODERN BUDGETING

With the beginning of the 20th century, there was a growing sentiment inside and outside the Congress for an integrated budgeting system. A number of attempts after 1890 to tighten up federal fiscal procedure awakened public interest in budgeting procedure. By 1910, the financial methods of the American Government had become so defective and so open to political abuses that steps were taken to correct them. It was during the presidentship of William Howard Taft, that a move towards modern budgeting system was made. There were two sets of pressures urging the need for reform in budgeting. The first was deficit budgets. The expenditure exceeded the revenue. The increase in expenditure was due to enhanced Governmental

[8] James Bryce, The American Commonwealth Vol. I, p. 179. Quoted by Burkhead, p. 11

functions. A second set of pressures came from the antipathy to graft and corruption itself. People showed zeal against laxity in federal administration and corruption in the Congress. Under such circumstances, development of budgeting took place. Frederick A. Cleveland remarked that, "This growing hostility to doing business in the dark, to boss rule, to 'invisible Government' became the soil in which the 'budget idea' finally took root and grew".[9]

These pressures and budget consciousness in the public produced some results. President William Howard Taft in June 1910, appointed a Commission on Economy and Efficiency and assigned it the task of studying the administration, organisation and financial procedure of the Government. The Commission undertook investigation of (1) the budget as an annual financial programme, (2) the organisation and activities of the federal Government, (3) personnel problems, (4) financial records and accounts and (5) business practices and procedure in the Government. On 17th January, 1912, President Taft sent to Congress a message on Economy and Efficiency in the Government Service. On 27th June, 1912, after a searching investigation, extending over two years, the Commission submitted its report entitled "The Need for A National Budget". These two documents have great significance in the development of Budget System. Burkhead remarks that, "This was the first time in the history of the federal Government that its organizational structure had been studied in detail, and the first time that detailed information had been assembled on the character of Governmental expenditures. Of even greater significance was the fact that these documents represented an assumption of responsibility by the Chief Executive for financial planning and for the management of the Government's business as it was then called".[10]

President Taft's message stressed the importance of establishing national budget system as an instrument of executive management and control. It was stated, "The constitutional purpose of a budget is to make Government responsive to public opinion and responsible for its acts".

[9] Frederick A. Cleveland, "Evolution of the Budget in the U.S." The Annual Nov. 1915, p. 22

[10] Burkhead, *Govt. Budgeting*, p. 19

The Commission, in its report, stressed the importance of a national budget system. In the report, the budget was conceived as serving a number of purposes – a document for Congressional action, an instrument of control and management by the Chief Executive and a basis for the administration of departments and agencies. President Taft stated in the House that, "the purpose of the report which is submitted is to suggest . . . a plan whereby the President and the Congress may co-operate the one in laying before the Congress and the country a clearly expressing administrative programme to be acted on; the other in laying before the President a definite enactment to be acted on by him".[11]

In support of its proposal for an annual executive budget, the Commission summarised the advantages to the legislator, the administrator and the public as follows:

The best that a budget can do for the legislator is to enable him to have expert advice in thinking about policies to be determined. His review of the economy and efficiency with which work has been done should be based on facts set forth in the annual reports of expenditure which would supplement the budget.

To the administrator (the head of an executive department) the advantage to be gained through a budget is the ability to present to the legislature and to the people, through the Chief Executive or some one representing the administration, a well-defined, carefully considered, lucidly expressed welfare programme to be financed and on presenting this, to support requests for appropriation with such concrete data as are necessary to the intelligent consideration of such a programme.

To the executive (i.e. the President) the advantage to be gained lies in his ability to bring together the facts and opinions necessary to the clear formulation of proposals for which he is willing actively to work as the responsible officer. To the people the advantage is the fact that they are taken into confidence of their official agents. Therein lies the practical use and purpose of the budget.

[11] Quoted by Burkhead, House Doc. No. 458, p. 16

The proposals of the Commission for reform covered five main requirements :

1. The commission proposed a comprehensive executive budget, that covered both expenditures and revenues to be based not only on the provisions of existing law as was traditional, but also on the inclusion of the budgetary consequences of new legislation relating both to expenditure and revenue proposed.
2. The Commission recognised that the Congress should be given an opportunity to consider the budget in terms of programmes or functions. It, therefore, proposed a functional classification for expenditure side of the budget.
3. The Commission recognised the need for the practical distinction between the programme aspect of the budget and the question of economy and efficiency. The President's budget message, for instance, was to deal separately with the financial programme of the Government, the economy and efficiency with which business has been transacted and the work programme of the Government and changes in law deemed essential to increase the economy and efficiency with which the public business was transacted.
4. The Commission recognised that effective execution of the budget depended on vertical arrangements that permitted the exercise of discretion at the various layers of responsibility.
5. The Commission stressed the importance of systematic review of the budget. It proposed a comprehensive and improved accounting system under the aegis of the Treasury.

President Taft was a strong supporter of the Commission's recommendations. He actually prepared a budget for the fiscal year 1914, but, when it was submitted to the Congess it was coldly received and practically ignored. Unfortunately, for the development of the budget system, the Congress was in no mood to turn into actions the recommendations of the Commission.

At the end of World War I, there was a strong popular demand, growing out of the instant success of state budgetary reform before and during the War, for a national budget system so much so that Congress could not delay the matter any longer.

Several proposals were considered by Congressional committees and numerous hearings were held. Finally in June, 1920, the Congress passed a bill to provide for such a system. But President W. Wilson vetoed this bill on the ground that one of its provisions, restricting the executive's power to remove the Comptroller General and the Assistant Comptroller General, was unconstitutional. Congress, already scheduled to adjourn for the session, took no action on the veto. The next year, however, this bill practically without change was again passed by the Congress. This was then approved by President Warren G. Harding and became a law on June 10, 1921, under the caption of the National Budget and Accounting Act. This act made the President responsible for submitting a budget to Congress each year. It created a Bureau of the Budget under a director appointed by the President to serve as a staff agency in preparing the budget. Nominally, this bureau was, as a matter of law, under the Treasury Department and continued so until 1939 when it was transferred to the newly established Executive office of the President. In this position, it became a major administrative staff of the President. Another power given to the bureau was that of studying all departments with a view to increasing their efficiency and economic use of funds.

The Budget and Accounting Act of 1921 also established a General Accounting Office under the direction of an officer, the Comptroller General. The officer, though responsible to Congress, was named by the President for a term of 15 years. He also acts as a watch dog to the Congress. Shortly after this act became effective, Congress took steps to provide for better legislative organization and procedure for handling the budget. There were several Congressional committees to help in budget-procedure, but there was no co-ordination in their work till 1946 when a legislative re-organisation Act was enacted. This act set up a joint budget Committee for the houses of Congress and authorised it to propose a legislative budget by February 15, for the ensuing fiscal year fixing the over-all federal receipts and expenditure for such a year.

The Budgeting and Accounting Procedures Act of 1950 brought another change in dividing responsibilities. It made agency heads responsible for their accounting system, and the Comptroller

General was empowered to prescribe the forms of accounts and to review the system of accounting employed by the agencies — this to be done with the consultation of Treasury and the Bureau of Budget.

DEVELOPMENT OF GOVERNMENT BUDGETING IN INDIA

Till 1857 the country was in the possession of the East India Company. All the powers in relation to Government were vested in and were exercised by the Company in trust for the British Crown. After the first unsuccessful war of independence of 1857, these powers were transferred to and vested in the Queen to be exercised in her name.[12] The Secretary of State for India was authorised to exercise the necessary powers and perform duties relating to the political and financial administration of India. As regards financial matters, the expenditure out of revenues of India, both in the country and elsewhere was subject to the control of the Secretary of State in Council. No grant or appropriation of any part of such revenues, coming into the possession of the Secretary of State in Council by virtue of the Act, could be made without the concurrence of a majority of votes at a meeting of the Council. The Secretary for State in Council was required, within the first fourteen days during which Parliament may be sitting, next after the first day of May in every year, to lay before both the houses of Parliament an account of the financial year preceding the last completed, of the annual produce of the revenues of India. He distinguished the same under the respective heads thereof at each of the several Presidencies or Governments and of all the annual receipts and disbursements at home and abroad on account of the Government of India, together with the latest estimates of the same for the last financial year. Along with these accounts a statement was also prepared from detailed reports from each Presidency and district in India in such a form as to exhibit the moral and material progress and condition of the country. They used to discuss and pass this account. The discussions were always made from the Englishman's point of view. The members only discussed the grievances of English manufacturers,

[12] Government of India Act 1858, Sec. 1

traders and civil servants and not of their Indian subject. For the administration of the finances of the country, the Finance Department was created in the year 1843-44. But it was suited to the commercial practices of the East India Company. There was nothing like budgeting of income and expenditure and the accounts were a mess of confusion. It was generally said that the British had provided so many good generals to India but not a single finance minister. The finance machinery established by the East India Company broke down during the revolt of 1857. Till then there was no finance member to look after the finance department. It was only in 1859, when Mr. James Wilson was appointed the Finance Member for the first time. He took historic steps to establish a budgetary system in the country. He presented his first budget to the Council on 18th February, 1860, within three months of his arrival in India. He delivered a great speech on that occasion in the high traditional style of British Chancellor of Exchequer. He dealt at length with the basic principles on which the financial policy of British India was to be based. His budget was a masterly survey of the financial situation of the country. It contained practical proposals for restoring the financial equilibrium in India. He expressed great confidence in the resources of the country and the capacity of the people to develop them in the following words :

> "A richer soil, a finer climate, a more illustrious active and frugal and I will add, (*docile*) population, it would be difficult to find anywhere . . . . I have seen many European countries, but I have seen none, at once so striking, so wonderful, so interesting. The nearest comparison, I could make, would be a Belgium upon an immensely enlarged scale. You have the same ancient magnificient cities, with their narrow streets, their thronged population, their splendid public buildings, their relics of decayed dynasties and active bustle of trade at every corner; but what is more important and more to our present purpose, you have the same expansive plains with Alpine mountains in the far distance affording sanitarium for the people and a climate for new varieties of production, you have large rivers and magnificient canals irrigating the country, the

same careful husbandry with cultivation upto the roadside and the same teeming population, all bent on active and profitable pursuits, you have the same thrifty and economical habits . . . . I never saw greater signs of industrial vitality and full of promise of future prosperity.".

He also had great hopes of trade expansion of the country as is clear from his following remarks :

"Almost every thing she (India) produces, is in constant and boundless demand in Europe and almost every article of importance required in Europe is to be found increasing in India, so various are her products, Sir, in this fact, there is greater security for the future."[13]

The Council did not discuss Wilson's budget, but the fact of presentation of a budget was of great significance and had far-reaching implications. In the words of Prof. K. T. Shah, "It was a far cry from the first budget speech of Wilson to the day when Indian should claim the power of purse for themselves. But the impetus was given. Interest in financial questions was roused".[14]

The establishment of the budget system in India was the greatest achievement of Wilson, whereby the financial estimates of each year are arrayed, considered and approved by the Legislative Council before the commencement of the financial year. In this way, Mr. James Wilson is to be regarded as the father of the budgetary system in India. He transplanted the British budgetary system in the country which grew successfully as time passed. The object of the new scheme was clearly expounded in the Financial Resolution of 7th April, 1860, which was published in the Government Gazette for general information. It explained the advantages of framing estimates of the anticipated income and proposed expenditure before the commencement of the financial year specially in a large country like India, having many provinces and departments.

The budget system had been introduced in India in the year

[13] Quoted by Dr. P. J. Thomas, *The Growth of Federal Finance in India*, pp. 76-77

[14] K. T. Shah, *Sixty Years of Indian Finance*, p. 33

1860, but certain features were added to the system later on. The Finance Member in India, theoretically had all the powers which a British Chancellor of Exchequer enjoyed, but in practice, there was a great difference. In Britain, the Treasury has always wielded great influence, but in India the Finance Member always depended upon the support and influence of the Viceroy. Popular control of the budget was then absent. In the words of Dr. P. J. Thomas, "The budget system thus brought into being did not for a long time come under popular control of any kind. Till 1872 the budget was presented annually to the Legislative Council with a speech by the Finance Member describing the financial position of the country. Technically no budget discussion was possible as under the Indian Councils Act of 1861, the Legislative Council could not meet for other than Legislative business. But in reality the budget proposals were discussed sometimes, rather fully, in connection with taxation bills which were generally introduced along with the budget".[15]

The Councils Act of 1892 authorised the Governor-General of India in Council to frame rules authorising discussion of the budget in the Legislative Council. But such discussions, when permitted under rules framed by the Governor-General were subject to some conditions and restrictions as to their subject or otherwise. But this restricted privilage was utilised by Indian members to voice their feelings and grievances in a very restrained way. The Indian leaders who were fighting like the early commons to secure control over public purse were very much dissatisfied with the crippled right of discussion so granted by the Act of 1892.

Shri Surendra Nath Banerjee speaking as the President of the 11th Session of the Indian National Congress held at Poona in 1895 gave forceful expression to such dissatisfaction in the following words :

"Under the Indian Councils Amended Act of 1892, not only have the Councils been partially reconstituted but their functions have been enlarged . . . the discussion of the budget has been allowed whether it is proposed to levy any new tax or not. This right however, is to be exercised subject to an

[15] *Op. Cit.*, p. 97

important reservation. Members may discuss the budget, may make any observation they please, but they cannot move any resolution in respect of any item in the budget or divide the Council thereupon. This seems to me to be altogether a needless restriction having regard to the fact that the Government has a standing majority in the Councils. If the non-official members were united to a man, they could not carry any resolution if the Government was finally resolved to oppose it. I venture to submit that if there is one class of question more than another in respect of which the representatives of the people should exercise any control it is financial question. No taxation without representation is the theory of modern civilized governments".

Mr. R. M. Sayani who presided the next session of the Congress at Calcutta in 1896 strongly complained that, "there is no power to move amendments and vote on it and therefore all life is taken out of the budget debates".

Mr. G. K. Gokhle in his evidence before the Welby Commission on 12-13 April 1897 described the position in the following words :

"Subject to the control of the Secretary of State which often is nominal, the Government of India can administer the Indian revenues practically as they please." After giving further details he summed up : "Neither in England nor in India is there the salutary check of public opinion on the financial administration. Parliament is ill-informed and even indifferent. And the supreme and local Legislative Councils are simply powerless to control expenditure since the budgets have not to be passed and no resolution in reference to them can be moved." He suggested, "Coming to the question of remedies, I think it is, in the first place, absolutely necessary that the Indian budget should be passed item by item, in the Viceregal Legislative Council. Government may retain their standing majority as at present, and that means, an absolute guarantee that no adverse vote will be carried against them. We have no wish to see the Government of India defeated on any point in the Supreme Legislative Council, but the moral

effect of recording, and so to say, focussing by means of discussions not official disapproval of certain items of expenditure will, I expect, be very great".

Act of 1907. Yielding willy nilly to the popular demand, a step was taken in 1907 in this regard. The Government of India issued a circular in August 1907, to the Provincial Governments inviting their opinion on some proposals incorporated therein. One of the proposals was that the members should be permitted larger freedom than was conceded for criticising the Government. This circular was followed by the Despatch from the Government of India to the Secretary of State, conveying the proposals for giving greater freedom of discussion of the Indian budget in the Imperial Legislative Council. It was proposed that the members should be given the liberty to move resolutions relating to the figures in any of the items appearing in the budget. Such resolutions should be in the form of recommendations to the Government.

Lord Morley, the then Secretary of State accepted these important suggestions as per his despatch to the Government of India No. 193 dated 27th November, 1908. By passing the Indian Councils Act of 1908 these suggestions were incorporated into the Council's Regulations of 1909 framed under Section 6 of the said Act. Later on an amendment to the regulations was made which gave the members the right to discuss and move resolutions recommending modifications in the budget items, but they were not allowed to vote and divide. Thus the members could express their grievances, but they did not have the powers of refusing supply.

Act of 1919. For amending the Government of India Act of 1915, Parliament passed the Government of India Act of 1919. By this amendment the Legislature was given some power of very restricted nature to vote upon some parts of the estimates. Certain items which were enumerated in detail were non-votable. They were charged on the revenues of India. The list of items of expenditure thus kept beyond the vote of Legislature was long and formidable. It substantially diluted the principle that the Legislature shall grant the money after giving an opportunity for the expression of grievances. Even in the matter of votable

grants, the position was not satisfactory. The Government had always overruled the general opinion.

Act of 1935. The Government of India Act of 1935, Section 34(2) gave similar powers to either of two Chambers. But the Governor-General was given over-riding powers to restore a grant, either in whole or in part, which has been rejected in toto or has been reduced, if in his opinion the refusal or reduction would affect the due discharge of Governmental responsibilities. On many occasions the popular representatives refused supply or reduced some of the demands, which were restored by the Governor-General. Such hurdles were removed under the Independence of India Act of 1947.

Indian Constitution. After independence, when Indian Constitution came into force, a new era began in the development of Government budgeting. Complete democratisation of the Indian budgetary system was done under the provisions of the Indian Constitution. Article 112 of the Constitution of India lays down *inter alia* that :

> "(1) The President shall in respect of every financial year cause to be laid before both the Houses of Parliament a statement of the estimated receipts and expenditure (budget in the common parlance) of the Government of India for that year, in this part referred to as the 'annual financial statement'."
>
> (2) The estimates of expenditure embodied in the annual financial statement shall show separately :
>
> (a) The sums required to meet expenditure described by this Constitution as expenditure charged upon the Consolidated Fund of India, and
>
> (b) the sums required to meet other expenditure proposed to be made from the Consolidated Fund of India and shall distinguish expenditure on revenue account from other expenditure."

As regards provisions of the Indian Constitution concerning budget procedure, the fundamentals of British procedure were adopted. The financial system then prevalent was based on the British system. It was but essential to adopt that system because we had previously worked it and understand better. Mrs.

U. K. Hicks observes, "Indian public finance bears on every page the imprint of the British tradition as it was developed at home and transplanted with minor adjustments to India and other colonial territories".[16] Thus Indian Constitution contains provisions regarding financial administration identical with those existing in the U.K., though in certain respect Indian procedure differ from those of the British. Under the provisions of the Constitution barring a few items (Charged expenditure) every other item of expenditure included in the estimates has to be submitted to Parliament, which has powers to assent or refuse to assent to any demand. The Constitution has put in a number of restrictions or limitations on the powers of the Executive. One of the most important restriction is that no taxes can be levied or collected except by the authority of law and also that no money can be appropriated for expenditure except in accordance with law and for the purposes and in the manner provided by law.

Thus the Indian Councils Act of 1892, Council's Regulations of 1909, Government of India Act 1919, Indian Independence Act of 1947 and the Indian Constitution were important milestones in the development of government budgeting in India, which took the country from the stage of 'no control of public' to the stage of 'full control of the public' through representatives in the financial matters.

In India, the form, the contents and the treatment of the budget has undergone substantial changes from the time the first budget was presented in 1860 by James Wilson. The accounts which Mr. Wilson presented were as one of his *successor* described, "Set forth in a single short table printed on a short, not bigger than the proverbial sheet of note paper. To this were appended a few statistics of debt, trade and cash balances, they barely occupied ten octavo pages".[17]

The tables were continued by Mr. Wilson's successor, Mr. Samuel Laing for 13 years. About 1866 we find the abstract of revenues and expenditure developed and classified into major heads — a far shorter list we now have but numbered and arranged much in the present style.

[16] U. K. Hicks, U. N. Public Finance Survey, India, 1951, p. 13
[17] L.C.A.P. vol. XLVIII 1909 10, p. 189

The credit of systematizing the Indian budget statement goes to Sir David Barbour, who in 1890 divided it into two parts, the first part dealing with general policy and the second containing details of financial results. From 1900, the first part bore the signature of the Finance Member and the second part of the Finance Secretary. Subsequent to 1920, the main estimates were split up into several demands. A separate demand is ordinarily made for each department, the total grant proposed and then a statement of the detailed estimates under each grant divided into two. The Finance Member had the directions to include in one demand grants proposed for two or more departments or make demand in respect of expenditure which cannot readily be classified under any particular department.

As regards the size of the budget, Mr. James Wilson's budget covered only ten octavo pages but the present budget covers several bulky volumes covering thousands of pages and includes following documents :

(*i*) The Budget of the Central Government,
(*ii*) The Demands of Grants for Civil Estimates in three volumes,
(*iii*) Demands of Grants of Post and Telegraph Estimates,
(*iv*) Defence Services Estimates,
(*v*) Explanatory Memorandum of the Budget,
(*vi*) Finance Bill and its Explanatory Memorandum,
(*vii*) Finance Minister's speech introducing the Budget,
(*viii*) Economic Survey for the previous year, (Till 1957-58 a white paper for the year was issued and since 1958-59 Economic Survey of the last year is being issued),
(*ix*) Economic Classification of the Budget (Submitted after about a week),
(*x*) Budget in Brief (submitted after about two months).

A separate Railway Budget comprising items (*i*), (*ii*), (*v*) and (*vii*) is also presented. On 18th July, 1957 a member raised a point of order in Parliament that under Article 112 of the Constitution a separate Railway Budget could not be presented. The point of order was ruled out by the Speaker under Rule 213 of the Rules of Procedure of the House. Different Minis-

tries of the Government of India also issue their administrative reports at the time when demands of a particular Ministry are discussed and voted.

As regards the day of the presentation of the budget, the financial year then commenced on 1st May, though the first budget was presented by Mr. Wilson on February 18, 1960. Mr. Wilson's successors have been presenting the budget every year excepting 1873 and the three following years when the budget was published in the Gazette and not presented to the Council. Since 26th January, 1950, when the Indian Constitution came into force the Finance Minister presents the budget under instructions from the President. As said earlier that the first budget was presented on 18th February, 1860, but between 1860 to 1892 it appears that no particular date was fixed for presenting the budget. Mr. Wilson's successor presented the budget on 27th April 1861. After 1892, the budgets were almost invariably presented in the month of March, though the dates varied. The first day of March was the appointed date on which the financial statements were presented till 1920. But the final budget used to be presented under the Council's Regulations of 1909 on or before March 24 every year. The Indian Legislative Rules 1920 provided that the budget should be presented on the day or days as approved by the Governor-General. From 1921 to 1924 the 1st March was the appointed date. The budget for 1924-25 was presented on February 29, 1924 by Sir Basil Blackett, who gave his reason for the change of date in these words: "If precedent had been followed, I should not now be opening my budget. It has been the practice in past years for the financial statement to be made on the morning of 1st March and to be followed immediately by motion for leave to introduce the Finance Bill on the first March as usual, but I make my financial statement tonight out of regard for the convenience of almost every one concerned except perhaps . . . the Finance Department. The commercial community will be glad of the opportunity to study the budget announcements overnight, instead of in the middle of a busy day and I am also glad to offer some slight relief to the devoted hand of officials who work on all nights in order to bring a new financial statement

safely into the world in the morning".[18]

Since then, the budget is being presented annually on the last day of February with few exceptions. In the year 1962, due to general elections, the interim budget for the year 1962-63 was presented on 14th March, 1962 instead of the last day of February. This budget was finally presented in the Parliament on 23rd April, 1962.

18 'Leg. Ass. Debates' vol. IV, 1924, p. 1069

CHAPTER II

GOVERNMENT BUDGETING—ITS THEORETICAL ASPECT

THERE WAS a time when the budget was considered merely a report for the information of the legislature. It was even made an object of ridicule as is borne out by the remark attributed to a lady in 'Punch', who said, "Of course I'm only a woman, but I don't see what good it does the country having a budget. It only means worrying before you spend the money instead of after". But today the budget is the nerve-centre of public economy. It has developed into a major instrument of social and economic development.

The word 'Budget' is derived from the French word *Bougette,* which means a small leather bag or pouch. It was first used in England to describe the white leather bag that held the seal of the medieval Court of the Exchequer. Later, the Chancellor of the Exchequer's bag, containing his proposals for financing government expenditure became known as his 'budget'. When he presented his proposals to the Parliament, he is said 'to open his budget'. This phrase was first used about 1773. Gradually, the word 'Budget' came to be used for the proposals themselves carried to Parliament for approval, instead of the container of the budget. The word has now become current in all countries and has been incorporated in many languages. Thus by the term budget it is commonly understood that it is a document presented by a government containing an estimate of proposed expenditure for a given period and proposed means of financing them for the approval of the legislature. J. B. Say says, "The common use of a formal term brings with it the necessity of expressing it briefly. As soon, therefore, as the idea of the budget became popular it became necessary to find a short and simple word to express it, and it is not surprising that England was the country to invent the term".[1] The French, too, began to use it in the anglicised form in the nineteenth century in place of *E tat du roi.*

[1] Rene Stourm, *The Budget,* pp. 2-3

DEFINITION OF BUDGET

The budget has been defined by different authorities in various ways, e.g. Paul Leroy Beaulieu in his book 'Traite de la science des Finances' states that, "The budget is in the first place a statement forecasting revenues and expenditures during a certain determined period of time. It is also an authorisation or an order by competent authorities to make the expenditures and collect the revenues".[2]

G. Jeze describes a budget as, "a forecast and an estimate of all the public receipts and expenses and for certain expenses and receipts an authorisation to incur them and to collect them".[3]

According to W. F. Willoughby, "The budget, thus is something much more than a mere estimate of revenue and expenditures. It is or should be the document through which the chief executive comes before the fund-raising and fund-granting authority and makes full report regarding the manner in which he and his subordinates have administered affairs during the last completed year, in which he exhibits the present condition of the public treasury; and on the basis of such information sets forth his programme of work for the year to come and the manner in which he proposes such work should be financed".[4]

The Encyclopaedia America defines budget as, "the annual statement relative to the finances of a country, made by a proper financial functionary, in which is presented a balance sheet of the actual income and expenditure of the past year and an estimate of the income and expenditure for the coming year, together with a statement of the mode of taxation proposed to meet such expenditure".[5]

The French Public Accounting Law defines budget in the following words :

"The budget is a document which forecasts and authorises the annual receipts and expenditures of the State and of the

[2] Rene Stourm, *The Budget,* pp. 2-3
[3] Rene Stourm, *The Budget,* p. 37
[4] W. F. Willoughby, *Principles of Public Administration,* p. 1
[5] *The Encyclopaedia America,* vol. 4, p. 677

other branches of service which by virtue of the law are subject to the same rules and regulations".[6]

"The budget is the official statement of public receipts and expenditures",[6] states the Dictionnaire de la Economic Politique.

P. E. Taylor defines budget as, "The master financial plan of government. It brings together estimates of anticipated revenue and proposed expenditures implying the schedules of activities to be undertaken and the means of financing these activities".[7]

Another writer Dubois De l'Estang says that, "The purpose of the budget is to determine the amount which individuals have to contribute jointly to cover expenditures for a public use and to regulate with sovereign authority the use to be made of the funds thus obtained".[8]

J. B. Say gives an incomplete definition of 'Budget'. He states that the budget is a document to bring out "a balance between the needs and the resources of the State".

Rene Stourm, the noted French writer on Budgeting, wrote that, "the budget of the State is a document containing a preliminary approved plan of public revenues and expenditures".[9]

The Oxford Dictionary defines a budget as, "a statement of the probable revenue and expenditure for the ensuing year, with financial proposals founded thereon, annually submitted by the Chancellor of the Exchequer for the approval of the House of Commons".

In the words of Mrs. U. Hicks, "A budget is the account of activities of the Central Government, presented by the Chancellor of the Exchequer on Budget Night. It is of course far from being a complete account of the public sector of the economy. It came short of covering the total expenditure of Public Authorities on current account and was not concerned with capital expenditure at all, except in so far as a small amount of investment might be financed out of tax revenue collected by Central Government".

6 Rene Stourm, *The Budget*, pp. 2-3
7 P. E. Taylor, *Economics of Public Finance.*
8 Rene Stourm, pp. 2-3
9 *The Budget*, pp. 2-4

E. A. Fitzpatrick states that, the budget is, "the administrative experience of the last or current fiscal period, systematized and organized for presentation to the legislature together with recommendations as to expenditures and revenues for the forthcoming fiscal period".[10]

According to F. A. Clevland and A. E. Buck, "Budget is a statement of all proposed expenditure of the commonwealth for the fiscal year including those already authorised by law and of all taxes, revenues, loans and other means by which such expenditure should be defrayed".[11]

The definitions given by Paul Leroy Beaulieu and G. Jeze do not suit the present democratic organization of the government. The budget is not an order, but a proposal put before the legislature for its approval.

It is also wrong to say that the budget is a proposal of taxation. In the U.S.A., the budget does not contain tax proposals. Taxation rates, etc. are varied at a later date.

The budget is also not a Balance Sheet of the country, because it does not give a complete picture of the financial condition of a country. It does not give the total assets and liabilities of the State, but refers only to the receipts and expenditures of a government within the year referred to by the budget. Although the budget is a very good index of a country's finances, yet it does not show the cost of government. Gaston Jeze says, "The budget is not to be confused with a Balance Sheet, a statistical summary or a financial statement. A balance sheet mainly sets forth the financial condition of the government, as it exists on a certain day. A statistical summary shows what has happened in the finances of the government over a period of time. A financial report is a statement of expenditure and receipts during a past period—a recapitulation of financial experience".[12]

Thus all these things help in framing the budget, but do not speak of the general character of the budget.

Budget is not a mere accounting statement as regarded by some writers on the subject; rather it is a plan directed to finance

10 *Budget Making in a Democracy*, p. 11
11 *The Budget and Responsible Govt.*, p. 231
12 A. E. Buck, *Public Budgeting*, p. 4

the government. It cannot even be identified with the programme of the political party because a government can never be placed at par with the party executive.

If we analyse the definitions given above we find that by budget, we mean, (*a*) a review of the revenues collected, expenditures incurred, and changes in the composition of the national debt and other matters during the fiscal year which has immediately preceded the time when the budget is presented; (*b*) an estimate of expenditures during the forthcoming year and the extent to which it is expected to be covered at the existing tax rate; and (*c*) proposals for such changes of tax remissions or increase as may be required to balance the expenditure. This is the detailed meaning of budget.

In order to arrive at a short but comprehensive definition of 'budget', we must see the characteristics, which a budget possesses. On the basis of those characteristics, it will be easier to form a suitable definition of the term.

First, budget is a plan or programme—a plan for the future. Such programme must be ready for execution. This plan or programme is framed on the basis of past experiences and data available. As it is a plan, it must be systematic and organised. This plan is very much guided by the economic and social policy of the government and the ideology to which that country is wedded. This plan is prepared in financial terms.

Secondly, a budget should not be considered merely a preliminary proposal, it is rather a plan of action. A proposal has no weight unless it is accepted, but the budgetary procedure in every country is so designed that it is generally accepted by the legislature with some modifications here and there. The Executive makes the legislature accept that budget as it has a majority in the House.

Thirdly, items included in the budget are merely estimates. That these items will turn into actuals, is rarely probable.

Fourthly, it is a comprehensive plan. It means that it covers all the activities of all the departments and agencies of the government. It covers all that is to happen during the period in the financial sphere.

Fifthly, it is generally an annual plan. A budget may some-

times cover a longer period than a year, but generally annual budgets are common.

Sixthly, the budget is always prepared and presented on behalf of the Executive. No other member can present the budget in the legislature.

Lastly, the budget is put before the legislature to be voted for. This characteristic is due to democratic organization of the government.

Considering all these characteristics of a budget, it can be defined as follows, 'A budget is a comprehensive programme, ready for execution containing an estimate of revenue and expenditure for a definite period, usually a year, prepared and presented by the Executive before the legislature to be voted for'.

BUDGET AS A PROGRAMME

A budget is a programme of work for the next budget year expressed in financial terms. A good budget must fulfil two conditions. First, the programme should be a clearly chalked out programme, ready for execution on approval. Secondly, there should be a clear indication as to how the required money will be available. If these two conditions are fulfilled, the budget can go into execution as soon as the budget year commences. Besides this, there should not be large deviations between budget estimates and actuals. If the accounts disclose a large deviation from the budget, it is a bad budget and shows the inability of the Executive to estimate correctly.

Sometimes it so happens that the Executive does not have a clearly chalked out programme, and lump sum financial provisions are made in the budget. This may be due to either of the two reasons, viz. (i) the details of the programme have not been finally decided, but there is the intention of doing work after settling the details, or (ii) there is a mere intention of doing the work, if money is available. This is a bad budgeting. The result in either case is that the annual budget, when presented to the legislature lacks firmness. The real budgeting starts after the approval of the budget. Such a practice affects adversely the budget performance and efficiency.

When there is a lump sum provision, there may be a number of difficulties due to which it may not be possible to settle the details of the programme and to get it accepted in time for execution during that budget year. Similarly, if a clear picture about the availability of money is not there, it means that provisions for expenditure are included just on the off-chance that some money may be found or that some other expenditure may not materialise. Both these defects introduce uncertainty in the budget. This shows that government has no clear picture in its mind of what it is going to do during the year. In the end, it may find that some of the schemes have not materialised either because the schemes could not be settled or because the money was not forthcoming. A good budget avoids both these defects.

GOVERNMENT BUDGETING AND FINANCE MINISTER

Government budgeting is the process by which the financial policy of a government including its monetary requirements is formulated, adopted and carried into effect. It involves all the departments of the government through which moneys are raised and spent. It touches all the economic resources of the country which are taxed for the support of the government. From an execution standpoint, government budgeting requires technical ability on the part of the administration and officers, and executive skill in determining the needs of government departments together with a thorough grasp of the problems of taxation, co-operation between the Executive and the legislative body in planning the systematic organisation of governmental machinery. A properly instituted and administered budget is the most effective means for the establishment of control over the public purse. This necessitates unusual qualities on the part of a Finance Minister, who is the leader of the whole financial organization of a country. G. Findlay Shirras writing on the qualities of a Finance Minister, states that, "He has to bring to the task of public finance a mind keen and alert, an intelligence trained in the best of schools, a natural capacity for business, a genuine and practical sympathy with various communities specially the mercantile community and a keen desire

at to be up and doing. He must be, as Lord Morley would have said, a paragon. A Finance Minister is not merely a veritable lion of the Treasury, but also a vigilant guardian of the Public Purse, who upholds the arms of the government in its annual struggle with the Amalekites in Budget debates".[13] His mind, in Emerson's phrase, must be 'locked and bolted to results'.

A finance minister is the administrator of the national finance. Upon his wisdom and actions, the fate of the whole economy depends. Thus it is necessary that his actions must be guided by sound judgement and experience. Necker, a noted French writer in his book 'De L'administration des Finances de la France' states that, "It is necessary that an administrator of finance guided by his genius, while elevating himself to the most lofty ideals, must often by painful contrast devote himself to most laborious work, he must pry into details, he must know their importance and must respect them, his courage must help him to overcome the usual distaste for that kind of application. I am well aware of the fact that in order to succeed one must find oneself well-informed and never be distracted by the charm of general speculation, everybody however recognises that generalities are but useless abstractions, lacking the certainty of thinking in detail . . . . It is impossible to begin the administration of finance fully prepared for the task because this work is made up of such a large variety of duties that there is no previous education in existence which would make a man qualified for the position".[14]

The Finance Minister is regarded as the custodian of public funds. An English conception about a finance minister is that he is, "a bulldog lying on a strong box". Theeirs, a Frenchman, in his speech delivered on 6th May, 1864, said that the most important quality which a finance minister should possess is ferocity. He said "I say a certain amount of ferocity—because that is needed to defend the treasury which belongs to the entire nation and not to any individual".[15] In a democracy he has to be careful of public criticism of his actions and policies. Sir Cornwald Lewis describes him "as an artist in extortion who can

[13] G. Findlay Shirras, *Science of Public Finance,* vol. II, p. 949
[14] R. Stourm. *The Budget,* pp. 68-69
[15] R. Stourm, *The Budget,* pp. 68-69

raise the maximum of money with a minimum of discontent".

Thus the job of a finance minister is full of responsibilities towards the Treasury, the public, his colleagues in the cabinet and the national economy in general. He has to satisfy all. He is the custodian of public purse and trustee of future generation. Gladstone said that the Minister of Finance 'resembles a man who is obliged to travel over a road leading through a thicketful of ambushes while holding a balancing rod in his hand'.

ADVANTAGES OF GOVERNMENT BUDGETING

Government budgeting is advantageous not only to the government but to every component of the national economy. In democracy particularly budgeting is useful to :

1. The government and its administrative officers,
2. Legislature,
3. Citizens and the tax-payers.

Advantages to Government and its Officers

Government budgeting is of a very great help to the administrative officers of the government because it substitutes planning for chance in operating the department of the government. Under budgetary system, the administrative officer has to make a forecast of his expenditure needs. For forecasting the expenditure needs of his department, he must think concretely of the programme of work which he is going to do in the next budget year in terms of its cost. Thus he has to formulate a plan of work and follow it, making only such changes during the year as are necessary to meet new and unexpected conditions. The preparation of the budget requires the Chief Executive or other responsible agency to view the needs of the departments and agencies of the government as related to each other and to the whole organisation and then to regard the total expenditures for all purposes from the standpoint of the means available to meet them. The determining factor is to balance the proposed expenditures with anticipated incomes. This effort to produce a complete picture of the financial requirements of the government is valuable not only from the standpoint of the Chief Executive but also from that of each departmental head, because

the budget relates to departmental needs. Budgeting prevents one department from getting funds at the expense of other departments. Under the budget system, the work of the government is regarded as an integrated whole.

Advantages to Legislature

Without a proper budget system, the members of the legislative body have no real basis for intelligent action on the fiscal policy of the government. It is through the budget that expert advice on financial requirements is presented by the executive to the legislative body. The government's job is highly technical and complex. They are only the officials who direct the departments who can know fully the needs of their work. The members of the legislative body generally know very little about their requirements as they have no direct contact with them. It is through the budget that the legislators think about the various activities of the government as an integrated unit. It helps the legislators to comprehend the ramification of governmental work and to compare the revenues and other resources of the government with its expenditure needs. Thus the budget is of great practical advantage to the legislature system in determining the fiscal policy of the government.

Advantages to Citizens and Tax-payers

The budget is a powerful instigator to citizens and the tax-payers. It enables them to know how much money is being raised for the support of the government and the purposes for which every rupee is to be spent. When properly prepared and thoroughly discussed before the legislative body, it is a most valuable source of public information. The press never fails to give space to news giving out discussion on the budget. In a democracy, the citizens show considerable interest in the financial condition and operation of their government which can be seen through the budget. As late as the beginning of the present century, government budgets were rarely discussed outside the academic circle. The citizens were generally ignorant of the uses of government budgets. But now the budget day is eagerly awaited by every citizen irrespective of his professional or political attachment.

PRINCIPLES OR CANONS OF GOVERNMENT BUDGETING

Various principles of government budgeting have been enunciated in order to guide the formulation, adoption and execution of the budget. Heinig Kurt, a classical German writer in his book 'Das Budget' enunciated, periodicity, prior authorization, comprehensiveness and clarity as budgeting principles. In 1885 M.Le'on Say evolved the principles that the budget should possess unity, should be annual, be prepared in advance of legislature's action and represent an accountable person. Later Rene Stourm suggested that all these principles are included under the heading of universality or comprehensiveness and accuracy or reliability. Some writers also lay emphasis on the principles of balanced budget. The enunciation of these principles helps in understanding the budgetary theory. The Principles of government budgeting may be classified as follows :

1. Relation between the Budgetary System and the fiscal activities of the political unit.

   (a) Comprehensiveness,
   (b) Exclusiveness.

2. Treatment by the budgetary mechanism of the factors included in the system.

   (a) Unity,
   (b) Specification,
   (c) Annuality,
   (d) Accuracy,
   (e) Integrity.

3. Forms and techniques of the presentation of the budget.

   (a) Clarity,
   (b) Publicity.

1. (a) *Comprehensiveness or Universality.* The principle of comprehensiveness or universality is the direct result of the evolution of the political ideas. Since all public revenues and all public expenditures must be sanctioned by the representatives of the people, it is necessary that each item of the revenues and of the expenditures included in the budget be given the

necessary sanction. A budget should give the complete picture of government revenues and expenditures. Budgetary entries of all expenditures on the one hand and all revenues on the other, each in a distinct list, should be given. Through a budget, it should be possible for a man to know the entire financial position of the Government. According to Grover, "comprehensiveness is a well-accepted rule among critics of budget-making that budgets should present a complete financial plan and that they should be considered and acted upon as a whole".[16]

(b) *Exclusiveness.* The budget should deal only with financial matters. It is exclusively concerned with financial operations of the government and has nothing to do with substantive legislation.

2. (a) *Unity.* Unity means that all government revenue should be credited to a general fund from which all expenditures should be met. According to M. Le'on Say, "There is no unity of the budget if it is not possible to make all the revenues enter into one treasury and to make the money for all the expenditures come out of the same one big common fund".[17] Unity of budget also requires that the budget be presented in gross terms—that is, total revenues and total expenditures should be set forth, not net revenues and net expenditures. Unity also means a logical and scientific arrangement of items. M. Le'on Say states at another place that, "To enclose a budget is a monument the arrangement of which are apparent at a glance. Hence the principle of unity". Unity of the budget does not mean making separate budgets for each agency or department and attaching it to the large budget.

(b) *Specification.* Specification means that items of expenditure and revenues must be specific and not general. It must be definitely stated in the budget how much money will be spent on a definite programme under different heads. So also items from which revenues will be derived must be specifically mentioned.

(c) *Annuality.* It means that the budget should be presented each year and should cover one financial year only. The budget must be annual, because the legislative authorities for

[16] *Financing Government*, p. 589

[17] Sundelson, *Budgetary Principles*, p. 1

levying taxes and disbursing expenditures cannot go on indefinitely. The budget grants must be for one fiscal year. If not utilised, those grants must lapse to the fund. All nations which possess a rational system of administration have limited to the period of a year all their operations covering revenues and expenditures. This corresponds with the natural order of things, because nature's cycle of seasons is also completed in one year.

(d) *Accuracy*. Accuracy means that the estimates of revenue and expenditures should be made as accurately as possible. This is possible only when estimates are based on the information which is sufficiently accurate, relevant, pertinent and detailed. Intelligent evaluation should be made of budget items. There should be no intentional over-or-under-estimation of items.

(e) *Integrity*. Integrity means that the programmes shall be carried out as substantially as provided in the budget. If the programmes of the budget are not followed, it is no use having a budget.

3. (a) *Clarity*. In democracy, it is essential that the budget should be framed keeping in view the principle of clarity so that every citizen may clearly understand it.

(b) *Publicity*. In a democratic government organisation the budget passes through various stages. The Finance Minister, on behalf of the Executive, recommends the budget to the legislature. The legislature discusses the budget and finally approves it. Since the time of presentation of the budget in the legislature by the Finance Minister, the budget is given wide publicity. No where is there any secret session of the legislature to consider the budget. In a democracy, this principle is of paramount importance. The Public and the Press get an opportunity of expressing their views on the various budget proposals. The budget is essentially an informative document, and hence its wide publicity is essential.

Besides these, there are a few more principles which may be added to this list. They are :

(i) *Principle of Responsibility*. According to this principle, the officials should be held responsible for the performance of their assigned functions and the utilisation of resources for that

purpose. Officials held responsible for performances, should have a primary voice in the planning of the programmes of their department.

(ii) *Principle of Equilibrium or Balance.* Earlier writers held that the revenues and expenditures should be equal.

(iii) *Principle of Economy.* The budget estimates are to be prepared keeping in view the principle of economy. Not a single rupee of the public funds is to be wasted. But economy undoubtedly depends more upon the goodwill of those who have the powers in their hands for executing programmes. No procedure can bring economy automatically.

(iv) *Principle of Flexibility.* There should be flexibility in the budget since there should be a reasonable degree of choice among policies.

These principles are useful as a means of examining some aspects of government budgeting. Some of these principles have become out of date and are hopelessly unrealistic. The Principle of Balance has become obsolete and the Principle of Unity cannot be adopted to a government where activity is carried on through multiplicity of organizations including governmental enterprizes. According to Burkhead[18], there is only one principle useful, that is, of 'Operational adequacy'. The principle of operational adequacy means that the budgetary process must be programmatic and capable of coping with the diverse governmental problems at hand and that emphasis must be on flexibility and adaptability.

BUDGETARY THEORY

The balancing of revenues and expenditures has been treated by the classical writers as the essence of a budget. But today there is a radical departure from this view. Prof. Jacob Viner remarks that, "It is mouldy fallacy that regardless of circumstances, the government must balance its budget in each year. There is a controversy regarding balanced budget theory".

For this aspect of budgetary theory, it would be useful to divide our study into :

[18] J. Burkhead, *Govt. Budgeting*, p. 107

(a) The classical approach,
(b) The modern approach,
(c) The underdeveloped countries approach.

Meaning of Balanced Budget

Logically a budget is not balanced, if expenditure exceeds revenue, or if revenue exceeds expenditure. The budget is balanced when revenue and expenditure are exactly equal. But, according to the common use of the word, a budget is said to be unbalanced only if expenditure exceeds revenue. If revenue equals or exceeds the expenditure, it is said to be a balanced budget. But we may call a budget balanced when revenue and expenditure are equal. An unbalanced budget is one where expenditure exceeds revenue. Such a budget can also be regarded as a deficit budget. A budget in which revenue exceeds expenditure may be regarded as over-balanced budget or a surplus budget.

(a) *The Classical Approach.* The classical approach towards budgetary theory was based on the economic fundamentals accepted at that time. The approach was based on the assumption of non-interference by the State. The classical economists were staunch supporters of 'Laissez Faire' policy. They advocated that the economic role of the State must necessarily be limited. The maxims of that time were; 'The very best of all plans of finance is to spend little and the best of all taxes is that which is least in amount'; 'Every tax is an evil and all public expenditure is waste'; 'If you want to govern peacefully reduce the budget'; 'The budget should be balanced and at the same time small'.

The classical budgetary theory, based on these fundamentals, was that of balanced budgets. Under this theory an adequate financial policy for government is one in which the finance minister undertakes 'prudent reduction of outlay' and 'skilful adjustment of resources'. A balanced budget may be achieved by either postponing certain payments or by reducing the quantity of stores, etc. But in the classical sense a balanced budget implies that total revenues and expenditures should balance without resort to any window-dressing tactics. If there is any budget deficit, it should be made up either by increasing revenue through additional taxation or by economising expenditure.

Logically, it is also implied that if the budget is surplus, taxes should be reduced or expenditure be increased.

The classical economists regarded 'balanced budget theory' as the doctrine of sound finance and it was supposed to be the natural rule of a full employment economy. Any departure from this doctrine leads the government to extravagance. It was believed that, that State was wasteful, which took funds from merchants and industrialists and spent them in riotous living. This deprived industry and commerce of capital, badly needed for the furtherance of production and trade, by diverting the national product towards consumer goods and away from capital goods. They were of the opinion that public expenditure curtails private expenditure. These were the reasons for Adam Smith's opposition to unbalanced budgets. His opinion was that in order to meet budget deficits government would borrow or tax industry and commerce and thus deprive a capital-poor society of funds which could be productively reinvested. In case budget deficits were made up by taking loans from a foreign country, Adam Smith feared that the annual tax burden for payment of interest on such debt will drive capital out from the country. The industry and commerce of the country will necessarily fall with the removal of capital which supported them, and the ruin of trade and manufacture will necessarily bring on a decline in agriculture. It was contended that government loan finance withdraws funds from productive private investment and expands governmental activity and invites irresponsible governmental actions. It was further argued that government borrowing makes further financing more difficult because it increases the proportion of budget which goes to meet the debt and debt charges.

The French economist, J. B. Say, was as vehement as Adam Smith in his opposition to unbalanced budgets. He was of the opinion that budget deficits are due to wasteful governmental expenditure. He believed that the wealth which passes from the hands of tax payers to the tax gatherer is consumed and destroyed. J. B. Say based his views on the argument that public consumption is not, in principle, different from consumption by individuals or families. The limitation of public consumption, like the limitation of private consumption, is necessary to provide

capital for industry and trade. Prof. Lutz, while arguing for a balanced budget observed, "We recommend the balanced budget as the normal practice in the belief that such a policy, being indicative of fiscal stability, will be more beneficial for the private economy and more conducive to the long-term stimulus of private effort than a policy of deficits". Other classical economists like Ricardo, Malthus, J. S. Mill, etc. too, were of the same opinion. Mill stressed that government borrowing to meet the budget deficits is harmful, if it destroys capital which could otherwise be used for productive employment.

An important change in these views was made by Dr. Dalton, though he also favoured balanced budget, but his approach was different. He applied the principle of marginalism to public finance. He states, "Public expenditure in every direction should be carried just so far, that the advantage to the community of a further small increase in any direction is just counter-balanced by the disadvantage of a corresponding small increase in taxation or in receipts from any other source of public income. This gives the ideal total both of public expenditure and of public income".[19] He advocated that disutility from taxation should be equal to the utility derived from public expenditure. Utilities and disutilities are balanced when the budget is balanced.

To sum up, the views of the classical economists with regard to unbalanced budgets are as follows :

(*i*) Public debts taken to finance budget deficits withdraw funds from productive private employment.

(*ii*) Deficits are less painful than current taxes. Unbalanced budgets therefore expand governmental activity and invite irresponsible governmental actions.

(*iii*) Government debt makes further financing more difficult because of fixed charges of interest on revenue.

(*iv*) Public debts are costly, public expenditure financed in this way must be paid for twice, once in meeting interest charges and once in repaying the debt.

(*v*) Unbalanced budget leads to currency deterioration.

[19] Hugh Dalton, *Principles of Public Finance*, pp. 18-19

(*vi*) Balanced budgets provide a guide for the transfer of resources from the private to the public sector.

(*vii*) The goal of financial policy is not to prevent unemployment through budgetary actions.

(b) *The Keynesian Approach.* The classical budgetary theory of balanced budgets was based on the assumption that full employment is the normal condition. Assuming aggregate supply to be always equal to aggregate demand, they ruled out possibility of any general over-production or unemployment. The classical budgetary theory is unacceptable to modern economists including those belonging to Keynesian school of thought. Keynes is of the opinion that full employment does not exist. Unemployment in the present economic set-up is due to deficiency in effective demand. He advocated full employment as the goal of budgetary policy and pleaded for full employment budget. This change of the approach as compared to classical approach was made necessary due to increasing responsibilities on the part of the government, and the nature of the present economic society. He pleads that the budget should not necessarily be balanced and small. A deficit budget is an index of the governmental efforts for raising the level of income, output and employment. It is demanded that government should follow a systematic budget policy to combat unemployment and raise the level of income and output. This led to modernisation of traditional budgetary policy. It is felt that the effects of taxation and public expenditure on production, employment and income are not confined to a particular fiscal year, but have far-reaching effects not merely on the persons taxed or benefited as the case may be, but on the various other sectors of the population and on the economy as a whole. The budget policy of a government brings about a continued transfer of wealth from one set of persons to another.

Keynes is of the opinion that there are unemployed resources which the private sector cannot or will not employ. These resources may be put to work by the State by means of additional public outlay, which need not be met by additional revenue. He contends that public outlay has got an important part to play in raising the tempo of economic activities and the

level of national income. Besides this, if taxation is resorted to meet the public expenditure it ensures a redistribution of income because rich are taxed heavily and poor are given benefit through public expenditure. This increases the aggregate consumption function of the society which goes a long way towards raising the level of income, output and employment. Hence there is need of abandoning the old budgetary practices. Though Keynes himself did not elaborate the role of budgetary theory for full employment, yet other economists of his line of approach like Alvin Hansen, Dr. Schumachar, Lord Beveridge, Mrs. U. K. Hicks, Dr. Dalton completed his job.

Alvin Hansen, who is regarded American Keynes, attacked the classical principle of balanced budget and gave numerous suggestions to improve budgetary technique to make budgets more flexible and of greater use. He says, "If one adopts wholeheartedly the principle that government financial operations should be regarded exclusively as instrument of economic and public policy, the concept of a balanced budget however defined, can play no role in the determination of that policy".[20]

Hansen, discussing the problem of balancing the budget points out that the expenditure incurred by a State can be divided into 'operating expenditure' and 'capital expenditure'. Some countries, notably Sweden, in order to exhibit these expenditures adopt what is called a 'double budget', in which the current and operating expenses are accounted for in the operating budget and the capital outlays in capital or investment budget. In a modern community characterised with wide fluctuations in income and employment, it will not be possible to cover even the regular expenditures with the current tax receipts. The government will have to meet at certain periods increased outlay on account of unemployment relief and other relief measures. As it is not possible to achieve a balance every year, an attempt should be made to achieve a balance over a series of years which may approximate the period of a business cycle. He laid emphasis on increased public expenditure in depressions as the primary solution to unemployment. He does not object to budgetary deficits under such cases. In other words, the operating budget will be in deficit during a period of depression and

[20] Hansen, *Fiscal Policy and Business Cycles*, p. 188

in surplus during a period of prosperity. Taking both the periods into account, it must be possible to achieve the budgetary balance.

The theory of cyclical budgeting is based on the idea that the public expenditure has a tendency to check economic fluctuations. Under a scheme of cyclical budgeting, an attempt is made to shift certain public expenditures from prosperity to depression period. Prof. Halm points out that in following an anti-cyclical budgetary policy we give up old fashioned ideas and consider unbalanced budgeting during depression a virtue rather than a sin.

Dr. Schumachar asserted that the rates of taxes and public expenditure should be so fixed at different levels of economic activity that these would stimulate both public and private investments as well as mass consumption and thus provide effective demand sufficient to absorb all available labour in employment.

Lord Beveridge, who was another exponent of the Keynesian school, viewed that the national budget should be drawn not on the basis of purely financial considerations but on the income and expenditure of the community as a whole. According to him, the primary objective of government's economic and fiscal policies should be to achieve the goal of full employment of human and material resources, so that poverty and misery, unemployment and starvation may be removed from the national economy. According to Dalton, through budget, the aims of (*i*) full employment, (*ii*) high level of investment, (*iii*) non-flation, i.e. avoidance of both inflation and deflation, and (*iv*) a better distribution should be achieved. He observed that, "The budget should be balanced but in the short run measured in terms of a year or two, the budget need not be balanced".

Thus Keynesian approach to budgetary theory did not emphasise balanced budgets. The approach was that of a 'Managed or Controlled Budget system'. The approach implies adjustments in public taxation and expenditure for the purpose of attaining economic stability. According to this approach, the budget is a means and not an end. The end is to achieve full employment of human and material resources of the country. The economists of this line of thought are of the opinion that

if the budget should be unbalanced in the interests of the national economy, it must be done so. According to Dr. R. N. Bhargava, "We should balance or unbalance the budget as the national interest demands. The fiscal operations of the State should reduce economic fluctuations. It is now more or less universally accepted that when private outlay falls the State must step in and fill the vacuum". The Keynesians thought that the greatest waste of all is the waste caused by unemployment. The government should, therefore, take positive steps to increase employment when people seeking jobs do not get work.

(c) *Underdeveloped Countries Approach.* Before considering the underdeveloped countries' approach, it is necessary to understand what an underdeveloped country means. According to some United Nations experts an underdeveloped country is one in which, "on the whole, production is carried on with a relatively small amount of real capital per head and with relatively backward techniques in the broadest sense of the word".[21] According to E. M. Bernstein, "The best test of an underdeveloped country is its level of real income and the rate at which per capita real income is increasing. In short, an underdeveloped country is one in which output per capita is relatively low and in which productive efficiency is increasingly very slow if at all".[22]

Thus an underdeveloped country is characterised by low levels of income and investment. It has a vicious circle of poverty having predominantly agricultural economy and large unemployment. Dr. A. R. Prest states that, "They (underdeveloped countries) have certain features in common on the production side : one normally finds a high ratio of population to capital, a relatively high dependence on primary production of one sort or another and a relatively large subsistence element among the primary products .... On the consumption side the distinguishing feature is the low level of income and well being compared to that found in the Western world".[23]

An underdeveloped country, therefore, has the problem of

[21] U. N., *Methods of Financing Development in Underdeveloped Countries*, p. 90

[22] E. M. Bernstein, Raja J. Chelliah, p. 24 in *Fiscal Policy in Underdeveloped Countries.*

[23] A. R. Prest, *Public Finance in Underdeveloped Countries*, p. 11

economic development so that the people of the country may enjoy a better standard of living. For initiating the process of economic development such a country has to follow a quick development programme, and for that, a large investment in the public sector is necessary. Such a course of action will produce far-reaching consequences on the economy. Through budgetary measures, it is essential to maintain a balance in the economy as a whole and it may be necessary to have unbalanced budgets in the interest of the larger balance in the economy. When an underdeveloped country undertakes a policy of quick development, it has to face simultaneously the pressures of general unemployment; because in underdeveloped countries there is sufficient supply of unskilled labour while at the same time dearth of technical personnel and also, due to high rate of population, growth in labour force increases at a faster rate than its demand; and of a high propensity to consume, because people live on subsistence level and when their income increases they demand more goods and services generally of essential character. Under such circumstances, consumption cutting is the right way, but in an under-fed and under-clad people this is a difficult task. Though consumption has been held in check in underdeveloped countries of a totalitarian character but under a democratic set-up such a course will be very difficult because the government have to face electorate. Moreover, consumption of necessities cannot be curtailed.

Before considering a budgetary theory suitable for an underdeveloped country, it is necessary to analyse the concept of 'balanced budget' as propounded by the Classical Economists and the sense of a 'deficit budget' viewed by Keynesian economists. A balanced budget generally mean that revenue and expenditure sides of the budget are almost equal and neither revenue nor expenditure side is expected to increase. Budget is to remain almost at a static level. By a 'deficit budget' it is sensed that expenditure side is allowed to increase while revenue side is not allowed to increase to that extent or kept static. For an under-developed country both of the concepts are unsuitable. Here the 'rule of balanced budget' or 'deficit budget' is to be replaced by the rule of 'growing budget' in which revenue and expenditure both increase simultaneously. Because, "income

generating effect of extra-spending financed through extra-taxation would be greater in the underdeveloped parts of the world".[24] A deficit budget is bad for such an economy but a balanced budget will be worse as it will produce more unemployment. Budgetary theory is thus, at the cross roads. Quick development will surely demand sufferings and sacrifices on the part of the people. Hence for an under-developed or developing country economic balance is more important than budget being balanced. Efforts should be made to make the economy balanced and keep it growing at the same time. Every effort should be made, in the first instance, to bring about equilibrium in the economic structure in the country. Both sides of the budget should grow simultaneously atleast in the operation budget; that is current revenues and expenditures should grow together. Neither continued deficits nor balanced or over-balanced budgets should be adopted. A stability in the budget will be helpful in bringing stability in the economy of the country. Stability should not be taken for stagnation, but for steady growth. This will stimulate economic growth, maintain a reasonable level of income, saving, investment and employment, while there will be no wider economic fluctuations.

[24] A. R. Prest, *Public Finance in Underdeveloped Countries*, p. 22

CHAPTER III

GOVERNMENT BUDGETING AND ECONOMIC POLICIES

"BUDGETS are not merely affairs of arithmetic, but in thousand ways go to the root of prosperity of individuals, the relations of classes and strength of kingdoms." This oft-quoted statement of Gladstone shows the economic and social significance of the budget. The budget is an instrument of economic policy. It has become one of the most important means of attaining the economic and social ends determined by the people. Budgets play a very important role in the social and economic life of a nation. In the early days a budget was simply a statement of estimated receipts and expenditures of a government. It used to be presented annually to the people's representatives, stating the financial outcome of the government's stewardship of the public finances during the past year together with any changes proposed for the coming year. In those days the budget had two objectives. Firstly, the government had to determine how little money it need take out of the pockets of the tax payers in order to maintain its necessary activities at a reasonable standard of efficiency. Secondly, the legislature may know the Executive's plan of expenditure. With the vastly expanded role of the government in the national economy during the present century, the budget has become a much more general report on the state of economy as a whole. The budget is now deliberately used as an instrument for affecting all sorts of changes in the general economic situation. Alan Williams states, "The budget tends nowadays to be the focal point in the presentation and implementation of the government's economic policy. This is a matter of convenience rather than of necessity, for in principle the annual presentation of the budget accounts should be an almost perfunctory matter, concerned entirely with technical financial accountability . . . like most shareholder's meetings. It has proved, however, to be a convenient occasion on which to embark on a wide-ranging review of the general economic

situation, an opportunity on the one hand to justify the government's past actions and to persuade people of the appropriateness of any measures that may be proposed for the future, or on the other hand to attack and criticise the government's handling of the situation. It is also often used as a means of publicising the government's wishes regarding the behaviour of particular sectors, individuals or firms in the economy, either as an attempt to improve the chances of success of the actual measures proposed or at times as a substitute for any such measures. Perhaps on such occasions exhortation, persuasion and intimidation of this sort should also be considered as 'budgetary measures' ".[1]

The modern government claims to be a welfare State, and its functions are ever-increasing. In such circumstances a budget is a significant instrument of planning, publicising, executing and reviewing the government's economic policy. The budget has widespread ramifications throughout the national economy, because; firstly, nowadays budgetary policy is conducted much more deliberately and secondly, the size of the budget in relation to the rest of the economy has grown so enormously that the power of the budget to affect the rest of the economy has been greatly enhanced. Budgetary actions of the government affect production, size and distribution of income and utilisation of human and material resources of the country. The budget reflects upon the government's policy in three main directions. First, the estimate of expenditure for which the budget seeks to provide must embody the policy of the government in such vital fields as defence, social services, agriculture, etc. Secondly, taxation proposals actively display the policy of the government in the pattern of distribution of taxation. Thirdly, both sides of the budget reflect the government's approach to the broader economic problems of the moment. Hence a government budget is a powerful instrument in the management of a nation's economy. The budget reflects, as well as shapes, a nation's economic life. The public revenues have specific effects on the levels of income and economic activity of the private sector. Similarly the public expenditure influences the kinds of economic activity of the private sector and level of economic welfare of the people.

[1] Alan Williams, *Public Finance and Budgetary Policy*, p. 272

THE ELEMENTS OF ECONOMIC POLICY

Economic policy is a very wide term. It includes monetary, financial policies, etc. All those policies having a bearing on the nation's economic life, are covered under economic policy. In the modern terminology of economics, fiscal policy means the policy of governmental finance. But, in olden days, fiscal policy meant only tariff policy, as is explained by Mr. B. P. Adarkar's noted book *Indian Fiscal Policy* dealing with Indian tariff policy. The word fiscal is derived from the old French word *Fisc* which means the money basket or the treasury. Thus 'fiscal' means 'pertaining to treasury' or 'government finance' Fiscal policy means the government's policy of taxation, expenditure, public debt, etc. Fiscal policy may be defined as, "a policy under which the government uses its expenditure and revenue programmes to produce desirable effects and avoid undesirable effects on the national income, production and employment. It emphasizes the effects of government expenditure and revenue upon the total economy and argues that they should be used deliberately and consciously as a balancing factor to secure economic stabilization".[2] Gerhard Colm defines fiscal policy as, "the conduct of government expenditures, revenues and debt management in such a way as to take fully into account the effect of these operations on the allocation of resources and the flow of funds, and thereby their influence on the levels of income, prices, employment and production".[3]

In the modern governmental organization, the amounts of public expenditures, revenues and public debt are so huge, that they have begun to assume a major importance in the national economy. Added to the size of operations, the way these operations are conducted are very important from their effects on a nation's economy. The desired fiscal policy can be pursued by budgetary measures like taxation, expenditure, public debt, etc.

Taxation

Taxation is an important source of obtaining revenue for

2 Arther Smithies.
3 Vasudevan, *Public Finance*, p. 207

the government but it is not only for revenue that taxes are levied. Every tax levied has repercussions upon the national economy. Through taxation, the government transfers resources from the private to the public sector. According to the modern concept of public finance, taxation is not solely for financing government expenditure but it is also an instrument for controlling the volume of expenditure in the private sector and also of reducing the inequalities of income and wealth in the country. The present tendency is to lay emphasis upon the effects of taxes rather than on their revenue earning capacity.

According to the classical economists' concept, taxation was a bad thing as is evident from Justice Marshall's statement who said "The power to tax is the power to destroy". But now taxation is not regarded as the power to destroy but rather as the power to shape the destiny of a country. Taxation also affects price level. When there is more money in circulation, government soaks the money through taxation and checks the rise in prices. The Government of India, through increased taxation, are controlling the prices which have risen due to inflationary pressure. Out of all the measures of budgetary policy, taxation is the most important. If wisely conceived and skilfully used, it can become a very effective instrument of policy. Through taxation it is possible to :

(*a*) Restrain or curtail consumption and thus transfer resources from consumption to investment;
(*b*) Increase the incentive to save and invest;
(*c*) Transfer resources from the hands of the public to the hands of the State to make possible public investment;
(*d*) Modify the pattern of investment;
(*e*) Mitigate inequalities of wealth and income.

All these things are related to the final objective of rapid increase in national income and of improvement in its distribution.

Public Expenditure

The classical economists viewed that all public expenditure is

waste. It is just a substitute for private expenditure. Public expenditure was thought desirable only in those circumstances where the private sector was not coming out. But, under the impact of the great depression of 1929 and War, this concept has made great strides. Public expenditure is being regarded not as a waste but as a preventive of national waste. The impact of public expenditure on national economy is so great that no item of expenditure really has to be curtailed simply for lack of funds. For full employment and economic stability, public expenditure is a powerful measure. Not only that, but through public expenditure social inequalities are also reduced. The money spent on education and medical facilities, benefits the lower classes of society, thereby increasing their real income. An increase in the public expenditure adds to the purchasing power of the community, because government spending constitutes part of the national income received by individuals and business concerns. Public expenditure has also its 'multiplier effect'. When there is an increased public expenditure, an extra amount of purchasing power is injected into the flow of national income, which appears in the form of extra amount of money income which flows to individuals or business units in the form of increased profits. Not all the addition to the income is used as purchasing power, for some portion of the increased income may be saved, which is not lost for ever because this portion may be invested and will lead to further production of purchasing power, through the payments which will result on account of increased production. What is not saved is spent and flows back to business which will come back to the community in the form of wages, dividend, etc. Again from this income some portion may be saved and the rest spent. Thus any increase in public expenditure will set in its train a series of reactions, known as the multiplier effect.

Public Debt

The issue and repayment of public debt was once viewed as merely a financial operation. During the War period, various governments realised the importance of public debt as a means to minimise the inflationary effect. In modern times, public debt is regarded as an important aspect of fiscal policy. By the

issue of the public debt, a government changes the composition of privately held assets. It also affects the volume and direction of private expenditure.

Monetary Policy

Monetary policy is closely related to the fiscal policy. Monetary policy acts in two ways, viz. through the Central Bank of the country and through governmental action. Bank rate, open market operations and other measures like varying the volume of reserves to be kept with the Central Bank by other banks empower the Central Bank to control and regulate the currency and credit of the country. The government's public debt programme is partially controlled by the budgetary process usually to the extent of the appropriation of annual charges, but the volume of debt is determined by considerations outside the range of budgetary policy.

BUDGETARY WEAPONS FOR INFLUENCING THE ECONOMY OF THE COUNTRY

The Budget is a tool for the administrator. The main practical applications of budget are in settling and reviewing the policies to be followed and controlling the execution of those policies. The budgetary system influences the timing and method of reaching policy decisions and supplies facts for basing the policies. At the time of the preparation of the budget, all the proposed activities of government are brought under review, with special regard to their financial implications. Every activity included in the budget is the result of a number of policy decisions at various levels. There are certain policies which are followed for a long period and there are others which are determined on the basis of present circumstances. In preparing the budget, government has to estimate its revenue and expenditure and tries to establish a close relationship between the two. All these are greatly affected by the general economic policy followed by the government, but the policy of raising the revenues is of greater importance. Government transactions are on such a large scale that the volume and direction of public spending and taxation has profound effects on the whole national economy.

Through its budget, which absorbs quite a substantial part of the national income, government demand dominates the entire economy. The government can strongly influence, if not determine precisely, the rate at which the private sector spends, saves or invests. The government should vary the rate of investment in the public sector in accordance with fluctuations in the volume of private investment. A budget should be framed with regard to the far-reaching economic and social implications of both the relationship between income and expenditure and the alternative means of raising the revenue required. The relationship between public revenue and expenditure has become a point of economic policy only within the last generation. It was in the 1930's when the economists propounded that the budget could be a vital weapon for regulating national economy.

Every budgetary action has 'economic policy effects', because every tax, expenditure and public debt operation will naturally affect the level of national income and employment. There are certain actions which are specifically taken by the government mainly to bring about a particular effect on income or employment. Only to that extent, budgetary actions designed to bring particular effects should be taken as a part of economic policy. The budgetary policy, as we know it today—under which government uses its expenditure and revenue programmes to produce desirable effects and avoid undesirable effects on the national income, production and employment—was practically unknown some fifty years ago. But now budgetary policy has an important relation with the working of the national economy. Walter Lippman wrote in the New York Herald Tribune of 26th November, 1942. "Since 1920 men have discovered the principle of prosperity. This discovery is much the most important advance in human knowledge in modern times. It is the discovery that government can by the proper use of public funds create a condition of full employment for its people".[4]

The government expenditure has two types of effects on the economy, viz.—'process effects' and 'product effects'. The 'product effects' are the end products in terms of streets, dams, bridges, police protection, etc. Process effects are the consequences of

[4] William, *Post-War Plan*, chap. 4

government expenditure affecting income and employment of private and public sectors.

The procedures of preparing the budget provide the occasion for deciding the revenue and expenditure policy of the government, but it is not necessary that the budget should affect the debt or monetary policies of the government. The budget-making organisation of the government may be utilised for decisions regarding public debt programme or monetary policies, but these decisions are carried out by different agencies in different ways.

Thus, only through revenue and expenditure policies, the government can bring about the desired economic effects in the community. Revenue and expenditure policies of the government should be decided keeping in view the condition of the community. In fact, the political judgement, the welfare proposition, ethical, moral and religious attitude, all have a role to play in determining these policies. These policies must change as circumstances change. Burkhead states that, "If budgeting is to make its maximum contribution to fiscal policy, budgetary practices and policy, must be flexible, so that revenue and expenditure can be modified in response to economic fluctuations".[5] For achieving budget flexibility, goverment should avoid restrictive budgetary practices like earmarking of revenues which means assigning revenues from specific head for expenditure under a specific head. This practice hampers a government's ability to adopt revenue and expenditure to changing requirements.

Economic policy flexibility in budgeting can also be achieved by built-in-practices for stabilisation, operating on revenue as well as on expenditure side. Built-in-practices ensure economic stability without deliberate interference of the government. For instance, income tax at graduated rates automatically checks the fluctuations in economic activity. An increase in national income will produce a more than proportionate increase in tax revenue and will automatically restrict private expenditure. On the expenditure side, built-in-flexibility should also be operative. If there is reduction in national income, public expenditure should increase. This will be easier in a country where govern-

[5] Burkhead, *Government Budgeting*, p. 70

ment spends on social security measures like unemployment, insurance, etc. The payment by the government to the unemployed under the unemployment insurance scheme will support the price level. Through built-in-practices of budgetary structure, automatic stabilisation in the national economy can be achieved. Budget expenditures and budget revenues should be diverted in that direction where it is possible that their effects on the level of economic activity will be those which are desired. If there is a fall in the national income, then tax rate should be reduced. In other words, tax rate and national income should be adjusted in the same direction. The budget expenditure should be adjusted in the opposite direction. Built-in-practices are no doubt an important factor in maintaining economic stability, but their effect takes a long time and only when taxes take a large proportion of income and if income-elastic taxes are relied upon. But built-in-flexibility alone can not do the job. Other measures along with built-in-practices will be more effective.

The economic policy, through budgetary actions, is effective in controlling and regulating the total volume of economic activity, the general price level and private expenditure. These measures may be regarded indirect, quite distinct from direct measures of economic policy. But these indirect measures have direct effects too. An increase in the income tax rate, designed to restrict the consumer expenditure in order to check inflationary conditions, is an indirect measure of controlling economic activity. But this indirect measure will directly affect the expenditure on particular commodities. Thus a budget is a powerful instrument of economic policy. According to Bent Hansen, "The budget is often spoken of as a means of economic policy, but in fact the budget covers several economic policy measures—parameters—which the State and other public authorities can use in economic policy".[6] A government before adopting budgetary measures of economic policy should see what measures will result in certain consequences and also if certain results are to be achieved, what steps must be taken. But this is a difficult task, because "in a modern highly integrated, sensitive and closely inter-dependent economic system the effects of any particular

[6] Bent Hansen, *The Economic Theory and Fiscal Policy*, p. 30
[7] Alan Williams, *Public Finance and Budgetary Policy*, p. 273

measures cannot be easily identified".[7] Certain techniques can be developed for studying effects of a group of measures of alike nature.

Though the budget has been regarded as a powerful weapon of economic policy, yet there are other measures also, besides budgetary measures, which are equally powerful in implementing economic policy. It should be kept in mind that, "The budget is not, of course, the only weapon upon which governments rely to influence the course of the national economy. Nor is it certain how far it has been or could be effective in attaining its objectives. But the annual budget has become the medium whereby the government undertakes a regular, comprehensive review of every aspect of its activities. In the course of preparing the budget, decisions are reached on many issues affecting revenue or expenditure which play an important part in directing the course of government policy during the year ahead".[8]

THE GOALS OF ECONOMIC POLICY

"Fiscal policy refers to the management of government expenditures and taxes and the handling of the public debt in such a way as to accomplish certain objects."[9] The objects or goals of economic policy for a particular country can be determined only with a reference to its stage of development. The government should see whether it is an advanced, developing, or an underdeveloped country, and whether its economy is agricultural or industrial. It should also take note of its social ideology, its circumstances and the nature of its economy and judge whether it is peace time or war time, etc. The goals of economic policy will be different for a developed country from those of an underdeveloped country. Similarly peace time goals will differ from war-time goals.

Richard A. Musgrave[10] states that there are three objectives of economic policy achieved through government budgeting. They are :

(*i*) To secure adjustments in the allocation of resources;

[8] R. S. Edwards, *Budgeting in Public Authorities*, p. 122
[9] Richard W. Lindholm (Ed.), *Public Finance*, p. 680.
[10] Musgrave, *Theory of Public Finance*, p. 5

(*ii*) To secure adjustments in the distribution of income and wealth; and

(*iii*) To secure economic stabilisation.

Due states that the primary objective of economic policy is, "the maintenance of a reasonably stable rate of economic growth without development of substantial unemployment on the one hand or of upward or downward movements in the general price level on the other".[11] Maintaining stability in the national economy, free from wide economic fluctuations, is the main objective of economic policy. Mrs. U. Hicks also emphasises this in these words : "Fiscal policy has been developed as an established economic function of government, every country is anxious to gear its public finances in pursuit of the twin aims of stability and growth; but their relative importance is very differently regarded from one country to another.... The two aspects are, however, inextricably linked. A steady rate of expansion will tend to reduce the violence of such fluctuations as occur; a successful full-employment policy will provide an atmosphere which is congenial for growth."[12] In an advanced country, the government tries to achieve the following goals through the implementation of its economic policy :

(a) The maintenance of a high and stable level of employment, popularly described as 'Full Employment'.

(b) The most equitable distribution of wealth and income compatible with the attainment of maximum national product.

(c) The maintenance of an adequate rate of investment, which should be such that not merely the existing stock of capital goods to be maintained intact but also increase at a rate sufficient to ensure industry's competitive capacity in foreign trade and also to raise the living standard of the population.

(d) The maintenance of external stability, i.e. ensuring a rate of export to cover the cost of imports and any long-term overseas investment.

(e) The stability of prices or atleast the avoidance of major changes therein.[13]

[11] Duc, *Government Finance*, p. 547
[12] Hicks, *Public Finance*, pp. 270-71
[13] A. R. Illersic, *Government Finance and Fiscal Policy.*

The peace time goals of economic policy in an advanced country are to maintain economic stability in the economy; and a sufficiently high level of investment so as to ensure full employment. This does not mean that further economic growth is neglected in such a country A sufficiently high level of investment will automatically produce economic growth.

Boulding observes that, "policy means the principles that govern action directed towards given ends". What policy should be followed will depend upon answers to three questions :

(*i*) What we want (The ends) ;
(*ii*) How we get it (The means) ;
(*iii*) Through what we get it (The nature of organisation).

Thus policy determination requires pre-consideration of ends, means and the nature of organisation. The major ends of an economy are to achieve economic stability, full employment and price stability. Some economists also stress upon national security, social security, economic and social progress and political stability. The last is undoubtedly the main objective of a country, because without political stability, economic stability cannot be achieved. In fact, all these objectives are inter-related and have complex relationship among themselves. The objectives, the achievement of which should be stressed are :

Economic Progress. Economic progress means the discovery and application of a better way of doing things to satisfy our wants. There should be greater production of wealth, as increasing wealth gives greater power to satisfy wants. Increase in the production of wealth depends upon increase in efficiency which will enhance productivity. Improvement in the technique of production of a commodity is more significant for economic progress. Improvement in the technique of production depends upon the rate of capital formation. According to Prof. Boulding, "A society that lives entirely from hand to mouth, that uses all its resources each day is caught in a trap of stagnation. It cannot progress because it cannot accumulate. Consumption wolfs up all that is produced and there is never any store up".[14]

[14] *Principles of Economic Policy,* p. 29

It should be remembered that economic progress goes hand in hand with moral progress.

Economic Stability. Stability should not mean stagnation. When we think of economic stability, we mean steady economic progress free from the evil effects of economic fluctuations or business cycles.

Economic Justice. Economic justice means that nobody can exploit another's labour. The society should be free from exploitation.

Economic Freedom. Every member of the society should have freedom in economic matters. Nobody should be compelled to work against his wish. He should be free to choose his work and terms upon which he is prepared to work. Thus in the words of Prof. Boulding,

> "Our policy, to be effective,
> Must chase a suitable objective,
> So our economy should be,
> Both growing, stable, just and free."

For an underdeveloped country, the policy to be followed must aim at economic growth. That is the first essential. The stagnant economy should be made progressive and every year it should aim to achieve a higher stage of economic development. The successful working of policy depends upon :

Effective Economic Forecasting. The essence of successful economic policy is the correct timing of certain measures, for this, correct economic forecasting is of fundamental importance.

Legislative, Administrative and Popular Understanding. This counts a lot in the successful working of economic policy specially in a democratic country. Public is to be educated in the intricacies of fiscal measures, because even good measures may be defeated and opposed by ignorant public due to lack of instructed judgement.

Administrative Discretion. The administration should have ample power to put into effect a policy.

Co-ordination with other Economic Policies. Fiscal policy is one of the tools in the hands of modern government and it must be considered with other policies.

KEYNESIAN THEORY AFFECTING FISCAL POLICY THROUGH BUDGETS

Keynes made certain suggestions to the governments to use their expenditure and revenue programme to produce desirable effects and avoid undesirable effects on the national income, production and employment. In December, 1933, Keynes wrote in a public letter to President Roosevelt, "You Mr. President having cast off such fetters (of orthodox finance) are free to engage in the interest of peace and prosperity the technique which hitherto has only been allowed to serve the purpose of war and destruction". His propositions were :

(*i*) An advanced economy does not necessarily come into equilibrium at full employment. At any time, the volume of private investment may be inadequate, given the prevailing distribution of income and the consumption pattern of the community, to maintain a high level of income and employment.
(*ii*) The traditional remedy for depression—reducing the money wage rates to reduce cost—is not adequate. At best it is neutral and at worst it may intensify a depression. Wages are both costs as well as effective demand of wage earners. The stimulus to profit margins which may be occasioned by the wage reduction may be offset by the reduction in consumer expenditure.
(*iii*) Governmental action can be undertaken to maintain a high and stable level of effective demand. During depression period additional governmental expenditure is not offset by a corresponding reduction in private expenditure. For the economy as a whole, the employment of unemployed resources is 'costless' in that additional output and higher standards of living can be secured by increased governmental expenditure.

These propositions had the greatest impact on the economic policy of the Governments of Western European countries and the U.S., but the Keynesian approach is essentially aggregative in character and does not take into consideration the structural relations within the economy. The Keynesian approach to inflation is based on the assumption that there is an excess of demand over supply, 'too much money chasing too few goods'. Hence he suggests limitation of demand to the size of supply.

But in the economy, some prices rise faster than others. The income of the shop-keepers increases more as compared to the income of persons having fixed incomes like pensioners, labourers, etc. The Keynesian approach does not tell us whose demand is to be curtailed, whether of consumers' goods or of producers' goods. The differentiations make structural changes in the economy and over-all distribution of income. Similarly, during depression the Keynesian approach is to increase effective demand, but it is not clear which demand should be increased first.

These limitations of approach can be balanced by budgeting. Budgeting should be concerned with components of the economy as well as the aggregates. Programmes for components should be framed so as to bring desirable effects and avoid an undesirable situation. For instance, during inflation the labour class suffers more than the business community, hence there should be provision of labour welfare schemes in the budget. Budgeting brings consistency and balance to the inter-relations between components and aggregates.

POLICY FOR AN UNDERDEVELOPED COUNTRY LIKE INDIA

The object of an underdeveloped economy is to step up the social and economic welfare of the people as quickly as possible. An increase in the per capita real income is desired in such an economy. The people of underdeveloped countries, specially those which were ruled by foreign powers and could not develop economically, like India, aspire for economic betterment and stability so that 'a rich country inhabited by poor' may turn into 'a progressive country inhabited by rich people'. They also want to maintain human dignity and political freedom and a respectful place in the comity of nations. To achieve these ends, the objectives of budgetary policy may be outlined thus :

(*i*) To make available for economic development the maximum flow of human and material resources consistent with the minimum current consumption requirements.

(*ii*) To maintain reasonable economic stability.

(*iii*) To reduce, where they exist, the extreme inequalities in

wealth, income and consumption standards which undermine productive efficiency.

An underdeveloped country while initiating the process of economic development has to face a situation in which there is secular growth in public expenditure and secondly there is instability in the governmental finance. There are mainly two reasons for growth of public expenditure in such a country. Firstly, in such a country there is rapid rate of growth of population. Population increases at a faster rate than the increase in the national income. Increase in population requires more roads, housing facilities, water supply, etc. for which the government have to spend money. Thus there is a tendency that the rate of growth of public expenditure as a whole is faster than that of population. Secondly, government have a responsibility of fulfilling the aspirations of the people for better standard of living. These aspirations have risen due to; firstly there is a world wide demand for improvements in living standards and secondly, betterment of lot of the masses economically was a part of political movement in some countries like India, and when Independence came it was obligatory on the part of the national government to fulfil such aspirations of the people. Thus governmental expenditure on social services of all kinds like housing, social security benefits, hospitals, educational institutions is inevitable. Moreover social security is a must for a self-respecting society. There is one more reason for increase in governmental expenditure, and that is the government in order to speed up the pace of economic development have to enter into the industrial field as an enterpriser. It is a general belief in such countries that it is the duty of the government to produce essential goods and services and to redistribute income between different sections of the community.

Thus in underdeveloped countries, budgeting is liable to suffer severe short-term embarrassment. In such a country budgetary weapon is to be applied to correct maladjustments in economy as well as to stimulate economic progress. Through taxation policy, capital formation is to be stimulated. In an underdeveloped country, there is a vicious circle of poverty. There the level of income is low and propensity to consume is

high. This results in low level of savings and meagre capital formation. Due to shortage of capital, there are less employment opportunities and hence low level of income. To break out this circle, vigorous taxation and government development programmes are called for. The budget assumes new significance in capital formation in underdeveloped countries. There is need of greater governmental expenditure on social amenities like education, health, etc. This enhances the taxable capacity of the people and also has a redistributive aspect.

In an underdeveloped country, it is essential that the process of economic development should be initiated and should be continued as its level goes on rising. The effective use of budgetary policy is indispensable for the speedy economic development. Government revenue and expenditure policies have important effects on the pace of development. They affect the allocation of resources and redistribution of income and promote capital formation and check inflation. By a planned expenditure programme, government can attract resources to the needy channels. The pattern of revenues and expenditures will affect the allocation of resources. Tax exemption and discrimination can prompt the direction of investment to particular industries. Inheritance and property taxes can affect redistribution of wealth. Taxes can retard the growth of industries with heavy social costs like wine manufacturing, etc. while subsidies and protective tariff can encourage the growth of industries desirable from the social point of view. Budgetary measures can help redistribution of wealth in society. The distribution of wealth can be made equitable through a greater degree of progression in the tax structure and incurring expenditure on social services aiming at benefit to the lower income groups. Budgetary policy can also encourage capital formation and check inflation, because the problem of development is connected more with capital deficiency than of uneconomic utilisation of resources. The cause of low per capita income is not disparity in incomes but the low level of national income. When national income rises, the distribution pattern can also be modified. Capital can be formed by public investments financed by taxation revenue and by borrowing. Capital can only accumulate

through savings after a rise in national income. During this gap, capital can come through increased taxation, borrowings-internal and external—and deficit financing. For the economic development of an underdeveloped country, the fiscal system can help in the following ways :

(1) To transfer funds (and thereby real resources) of the proper magnitude to the government for use by the government, particularly for financing government expenditure for economic development;

(2) To influence the size and the direction of private investment expenditures; and

(3) To transfer savings from the private to the government sector and vice versa to assure their most productive utilisation".[15]

While initiating the process of economic development, it should be carefully seen that :

(a) In the course of the development, the per capita level of consumption should at no time fall below the initial level because with the low level of consumption which prevails in most of underdeveloped countries, even a temporary curtailment of consumption involves too great a sacrifice to be compensated by the prospects of greater consumption in future.

(b) A rising proportion of additional output should go towards capital formation. A significant improvement of the economic situation of underdeveloped countries in the long run is attainable only through a substantial increase in the rate of capital formation to a level at which special efforts by the government to sustain capital formation will no longer be necessary.

BUDGETARY POLICY AS A GROWTH STIMULANT

The budget is an important means of influencing the economic process because of a firm and direct hold on the economy, the results are more direct. It enables the government to raise the country's saving potential, to channel the investments in the

[15] John H. Adler, *Fiscal Problems in Economic Development*, p. 29

proper direction considered necessary by the government and to direct and control private investments for the benefit of the economy. The government should try for the proper and full utilisation of the economic resources of the country, because, "the problem of growth requires that at any point the total available productive resources of the country must be distributed between the private sector and the government's economy in such a way that the national product increases at an optimum rate".[16] In an underdeveloped country, the problem of steady economic growth requires a steady increase in total investment, private as well as public. In order to maintain total investment activity, public investment will have to be extended. Besides this, underdeveloped countries have inequalities of income and wealth, which they want to reduce. But if the country is to rely primarily on private investment, inequalities will not be reduced but may even be increased. For private capital formation necessitates the building up of private fortunes. This way of building up the capital of a country has always given rise to great political upheavals. The only feasible alternative is to build up capital on public account. For this, a budgetary measure like taxation can be used to reduce inequalities as well as to promote public investment. It is desirable that all sectors of the economy should be progressively taxed.

So far as India is concerned, budgeting is to be used as an instrument for achieving broad economic objectives and it should be according to the need of planned development. Besides, we should also remember two facts viz., (*i*) with no effective automatic checks on the creation of money, government policy increasingly dominates the economy of the country, and (*ii*) the natural checks imposed by market judgement are less effective. At the same time the financial needs of the country for development plans continue to increase. For this India's budgetary policy should be :

(a) To increase the rate of investment by checking actual and potential consumption; for this taxes must produce sizable addition to public revenue;

(b) To encourage the flow of investment into channels

[16] Adler, p. 145

judged to be most desirable from the point of view of society;

(c) To regulate the flow of purchasing power, in a quasi-planned economy, in accordance with the overall pattern laid-down in the plan;

(d) To modify, where large inequalities of income and wealth exist, distribution of income and wealth in a manner and to the extent consistent with the best long-term interests of the population as a whole;

(e) A change in the tax structure should be initiated to make tax yield progressively more responsive to increased incomes and facilitate an orderly development of the economy with due regard to the social objective adopted. The taxation should be markedly income elastic to meet expenditure and to check inflation.

In U.K., in 1941, a new pattern of budget was introduced to serve as an effective instrument for implementing the financial policy of the Government. It was desired then to check the inflation by subsidising prices of certain essential commodities and to raise the necessary resources by a judicious planning of taxation and borrowing. This new concept has now gained universal recognition. An underdeveloped country like India, seeking rapid economic development should take lessons from this. Here the problem is to manage and utilise the limited resources of the country for the nation's good. There is one other thing which is very important in such a country and that is of keeping the prices under check. During the early stages of development, the economy is bound to be a 'shortage economy' where there will be shortage of goods and services generally of essential character. This leads to rise in prices. Traditional ways of controlling price-rise like control and rationing which have been successful in countries like United Kingdom give rise to black-marketing and corruption, due to weak moral fibre of the people in economic matters and lack of educated public opinion. State's intervention in the trading activities of such commodities will also not be very helpful, as it will also lead to corruption and bureaucratic administration set up. Here one thing should be noted, and that is, the worst sufferers under such measures are the general masses, while the government are just

a custodian of the interests of the masses. Development of co-operative sector, though helpful to some extent, but due to lack of education in the masses, is subject to various malpractices. Under such circumstances there is need of evolving new techniques of checking rise in prices. Incentives of direct nature to increase production and to restrain consumption should be given.

As the resources of the country are limited, central direction and planning becomes essential. But under a democratic set up, it becomes a bit difficult. Hence it is necessary for the Government to seek public co-operation and people must be trained, so that, they may accept unfamiliar measures. Besides, as more and more money is put into circulation as a result of increased investment activities, people will have more money to spend, creating more demand of consumer goods and services. Our primary efforts will be concentrated on producing capital goods in preference to consumer goods, and this will further lead to rise in price level. This rise in price level, though inevitable, will affect different sectors of the economy differently. Though our country is primarily an agricultural country, but unfortunately our agricultural production is insufficient to meet the demand of the public for food grains and of industries for certain raw materials. Hence rise in the prices of agricultural production will be more as compared to other types of production, though agriculture being a basic industry, prices of other goods and services will also rise as a result of increase in the prices of agricultural production. Naturally agricultural producers will benefit more by this rise in the price level. Secondly, producers of consumer goods too will benefit to a greater extent. Hence, taxation system should be so utilised that those who are benefited, pay their due share and contribute towards economic development of the country. Dr. A. R. Prest states that, "Although it can be argued that in the short run there is nothing very reprehensible about laying especially heavy taxes on people with especially large increases in incomes, there is clearly no justification for permanent discrimination of this sort. To argue otherwise would imply that there was some inherent reason for taxing producers of some commodities more heavily than others, and in the particular context of most underdeveloped countries,

for taxing farmers more than non-farmers". This gives some justification for taxing more the agricultural producers than other types of producers, because agricultural sector is benefiting more as compared to others. But before implementing such a policy, one thing should be given due consideration and that is the nature of Indian agriculture. Agriculture in India even now is a way of life and not a profession. So long agriculture remains the way of life of the people there will be difficulties in burdening the agricultural producers with heavy taxes. Steps should first be taken to organise the agriculture on commercial basis before taking such a step. But meanwhile surplus purchasing power should be taken from these sectors and invested in productive activities. To bring about greater equality in wealth and income, it is natural to resort to progressive direct taxation. Estate Duty is a powerful means of bringing about equality in wealth. The country is spending more and more on social services which will gradually increase the standard of living of the people. Thus budget is being used in India for implementing the economic policy of the country with a considerable success.

Economic Stabilisation Through Budgeting

In an underdeveloped country, the main task before the government is to initiate the process of development and to continue that process. In an advanced country, government desires to bring economic stability at full employment in the economy. It is also desired in modern times that economic stability should have automaticity. Automatic stabilizers are elements of public expenditure and revenues that operate to increase or decrease output or spending power. They are set in motion by a fall or rise in economic activity without the necessity of formal action. When income rises, the automatic stabilizers come into play and tend to widen the margin in between total income and disposable income, thereby retarding the rise in disposable income. Conversely, when consumer and other demands fall, and a downward trend in national income sets in, they tend to narrow the margin and lessen the rate of decline in disposable income. The automatic stabilizers reduces the range of fluctuations—they do not fully offset them. Disposable income or spending power is influenced by automatic changes

in both, public expenditure and taxes. Unemployment compensation payments are the principal category of expenditure that increases or decreases automatically as output falls or rises. At the same time a change in the volume of employment operates to lower or raise the pay roll base on which unemployment compensation and old age contribution or taxes are levied. On the revenue side personal income tax is a leading automatic stabilizer.

To bring economic stability, the budget should be balanced in the wider concept of the term and not in the terms of equalling revenue and expenditure, which is a narrower concept. Balanced budget should be one, which brings the national economy to the point of economic, equilibrium, which is framed keeping the balanced view of the economy, and leads the country to a higher stage of economic development. When economy is balanced, the budget should be taken as balanced. A balanced budget is one which takes into account a balanced view of the economy of the country, harnesses the resources of the country in a balanced way and looks to the needs of different sectors of the economy keeping balance between them. In such a budget proper care is taken of masses suffering from poverty and social evils, so that the balance of the society as an organisation is kept in a just state. The economy will be balanced, when social wants are satisfied individually or in case individuals cannot satisfy their wants by their own efforts, the State arranges for that; there is improved distribution of wealth and income to desired ends; there is high level of employment and price stability; the rate of capital formation and investment is sufficient to maintain that high level of employment and the level of output is also high to fulfil the requirements of the community.

CHAPTER IV

GOVERNMENT BUDGETING—ITS FUNCTIONS, OBJECTS, ORGANISATION AND CLASSIFICATION

FUNCTIONS OF GOVERNMENT BUDGETING

GOVERNMENT budgeting is an essential element in the sound financial administration of a nation. A government budget consists of the executive's plan expressed in monetary terms for spending and raising funds. It is through a budget that a government puts its plan into action. Government budgeting has the following functions to perform :

(*i*) The first and the foremost function of government budgeting is to administer in an orderly manner the national finances. Orderly administration of national finances means that there is no haphazard and unplanned expenditure and revenue. Financial operations of the government are properly planned and administered through budgeting.

(*ii*) Secondly, it is a proforma in which the executive puts plan of public revenue and expenditure before the legislature for approval. The budget provides a scientific way of presenting items of public revenue and expenditure.

(*iii*) Thirdly, on the basis of budget, the executive is granted authority to raise funds and incur expenditure out of that fund.

(*iv*) Fourthly, it functions as an instrument of execution of the economic policy of the government. An approved budget gives the administrator a summary of the financial environment within which he has to work. It makes readily available to him information on many features of his department's plan and prospects which need to be taken into account in considering any change in policy.

(*v*) Fifthly, the budget is a review of the past accomplishment, as it contains the figures of the previous financial year. The review of past performances is necessary in order to ascertain the extent to which budgetary intentions have been realised.

The retrospective view of the budget helps in knowing whether public money has been spent in accordance with the law and how far objectives laid down have been achieved.

(*vi*) Sixthly, budget functions as a background to policy making, i.e. it supplies data for decision making.

(*vii*) Lastly, the budget functions as a guide to various departmental heads for what they have to do during that budget year.

OBJECTS OF GOVERNMENT BUDGETING

The budget is a technical document. It is difficult for a common man to follow and understand it. Hardly a man in a thousand cares to know the details of the budget. To most people, the finances of the country are a sealed book. They have no idea of a definite kind, how the money is raised and spent by the government. Still the budget has certain objectives, the fulfilment of which is useful not only to the government but also to the common man. The objectives of the national budget may be classified into (a) Informative and (b) Administrative.

(a) The informative objectives of budgeting are :

(*i*) To bring about a regular periodic reconsideration and revaluation of government purposes and objectives.

(*ii*) To facilitate a comparative evaluation of different purposes and programmes in relation to each other and to their relative cost.

(*iii*) To provide a basis for examining the role of the government and its cost in relation to the private sector of the economy and thus for tailoring the government's programme to the needs of the society and the economy as a whole.

(*iv*) To provide a periodic link among the administration organisation, the executive, the parliament and segments of the public and thus create an important basis of democratic information and discussion and of democratic control of government activities.

(b) The Administrative objectives are :

(*i*) To provide the legal basis for the expenditure of public funds.

(*ii*) To provide the frame work of public account and fiscal accountability.

(*iii*) To make possible the systematic re-examination of internal operations from the standpoint of efficiency and economy. This object is more important than others, because "In one sense the entire budgetary process can be said to have a single objective, the attainment of economy and efficiency; the determination how the country's scarce resources can best be served by the diversion of scarce resources through taxation and other methods, from private to public use and by the allocation of those resources among various government uses. Such a determination covers both the questions what programmes should be undertaken and how they should be executed".[1]

(*iv*) To facilitate delegation of operating as well as financial authority and responsibility while providing the basis for central control.

The Public Accounts Committee states the object of budgeting in the following words: "The budget is designed to provide for Parliamentary control, for administrative accountability, for the auditing of transaction for ensuring that the expenditure incurred by the Government is in the specific manner and by the specified authority".[2]

The Royal Institute of Public Administration in its study "Budgeting in Public Authorities" has set out four objectives of budgeting.[3] First, the budget is a Plan setting out the proposals and decisions of the executive. Secondly, the budget is a Forecast of the results expected rather than the expression of deliberate intentions. Thirdly, the budget is a Authorisation. It means it is an instrument whereby the supreme governing body sanctions the raising of revenue and the incurring of expenditure. Finally the budget is a Yardstick of what expenditure or revenue ought to be if the government is to work efficiently. Besides these functional objects, the budget has

[1] A. Smithies, *The Budgetary Process in the U.S.*, p. 13
[2] U. M. Trivedi, 'L. S. Debates', p. 3205
[3] p. 19

some loftier objectives also. The Finance Minister in his Budget speech of 1962-63 stated that, "Object of budget is not only to raise resources to cover expenditure. But there are other objectives such as increasing savings, promoting exports and it must serve the objective of social justice in distributing the rewards and sacrifices implicit in planned progress". Such objectives will differ from country to country and from time to time. These are merely policy objectives which are realised through budget.

ORGANISATION

Sound management of finances is of vital importance to a country and its government. This depends on sound organization of budgeting. The organization differs from country to country. It has been designed by every country to suit its needs. In the U.S.A., there is a Bureau of the Budget consisting of a Director, six Assistant Directors and a General Council. The Bureau helps the President in preparing the budget. It functions under the Executive Office of the President and is responsible to him. In the U.K., "The Treasury may be shortly described as the Department which subject to the control of the executive and to the authority of Parliament is responsible for the administration of the public finances of the country".[4] The Prime Minister is regarded as the First Lord of the Treasury but he does not administer it. The Chancellor of the Exchequer is the effective ministerial head of the Treasury.

In India, the public finances are administered by the Ministry of Finance. The Head of the Ministry is called Finance Minister. The Ministry of Finance is responsible for the following functions :

(*i*) The administration of the finances of the Central Government and dealing with financial matters affecting the country as a whole.

(*ii*) Raising the necessary revenues for carrying on the administration and regulating the taxation and borrowing policies of the Government.

[4] T. L. Health, *The Treasury*, p. 1

(*iii*) The administration of problems relating to banking and currency and in consultation with the ministries concerned arranging for the proper utilisation of the country's foreign exchange resources.

(*iv*) Controlling the entire expenditure of the Government in co-operation with the administrative ministries and departments concerned.

The Finance Ministry occupies a key position in the administration of the country. The responsibility for preparing the annual budget of the Government of India has been assigned to the Finance Ministry. The Ministry has to see that whatever items of expenditure other administrative ministries wish to be included have passed through all the scrutiny laid down by rules and regulations. The Finance Ministry has to put forward proposals in regard to taxation, but, before doing so, it must give careful consideration to the economic and financial implications of the proposals. It has also to work out Government's borrowing programme in consultation with the Reserve Bank. Thus the entire structure of financial administration revolves round the Finance Ministry. The Finance Ministry has three departments, viz. Department of Expenditure, Department of Revenue and Department of Economic Affairs. Under the Department of Revenue are the executive organisations responsible for the collection of income-tax, excise, customs, etc. It also deals with the problems of policy arising in respect thereof. It also advises the Government on fiscal policy. The Department of Expenditure is responsible for giving financial concurrence to new proposals involving expenditure. It deals only with the financial implications of the proposals, and does not indicate the desirability or otherwise of the proposal, which is the concern only of the Administrative Ministry. The department of expenditure is responsible for scrutinising the Ministry's demand, when submitted for inclusion in the budget and for seeing that it has received the necessary approval of proper authority. The Department of Economic Affairs manages budgetary, monetary, foreign exchange and all other matters affecting the health of the country's economy. The Budget Division of the department of Economic Affairs of the Ministry

of Finance is primarily responsible for the preparation of the central budget excepting the Railway Budget. The estimates for Defence Services are scrutinised and compiled by the Defence Division and the estimates for the Post and Telegraph are compiled by the Director General, Post and Telegraph. The estimates relating to other ministries and the departments of the Government of India are compiled by the Budget Division with other associated Finance Divisions concerned. The ultimate responsibility for the consolidation of the entire budget and the preparation of its supporting documents, vests in the budget division.

Further the Budget Division is responsible for the following items of work :

(*i*) Obtaining supplementary grants or appropriation in Parliament during the course of the year.

(*ii*) Preparation of the ways and means estimates, the floating of public loans, promotion of small savings movement, women's savings campaign, administration of public debts and borrowing by the State Governments, implementation of the recommendations of the Finance Commission and the administration of the Contingency Fund of India including the sanctioning of the advancements and their ultimate recoupment to the Fund.

(*iii*) Questions pertaining to audit and accounting procedure, classification of transactions in Government accounts and framing and application of Treasury Rules.

(*iv*) Work connected with the fixing of borrowing rate of interest and to examine the accounts and audit reports submitted to the President of India by the Comptroller and Auditor-General before their presentation to the Parliament.

(*v*) Issuing of standing instructions for maintaining proper control over expenditure during the course of the year and for accepting surrenders of the provisions not required by the Ministries.

BUDGETING ON CAPITAL AND CURRENT ACCOUNT

In certain countries particularly in Scandinavian countries, it is customary to make distinction in the budget between capital

and current account. J. R. Hicks in "The Problem of Budgetary Reform" and F. S. Bray and R. Stone in "The Presentation of the Central Government Accounts" have suggested a double budget system, in which two budgets are prepared one for capital transactions and the other for current transactions. In the U.K., the budget distinguishes the 'above the Line' expenditure to be financed from revenue from 'below the Line' items which may be met by borrowings. There is some what similar distinction in Australia between the commonwealth's consolidated revenue fund and loan fund expenditure, and in Italy between the Government's effective expenditure and the 'movement of capital'. In Sweden there is an ordinary budget covering current transactions and a capital budget drawn up as an annual plan of capital investment by the Central Government. The Swedish capital budget is designed primarily to assist in planning State investment. The Netherlands budget separates 'ordinary', that is current from 'Extraordinary Items', the latter being sub-divided between capital transations and other items such as post-war rehabilitation measures which for various reasons have been spread over a number of years.

The question of establishing such a system of budgeting, and, if established of deciding what principles and procedures should be followed in separating capital and current transactions, are most controversial and difficult. The so-called capital budgets have one defect of hiding deficits, which otherwise would have become apparent.

In countries where a distinction is made in the budget between capital and current transactions, the principle on which items are separated between capital and current budgets is not uniform. Generally a capital budget should show on the expenditure side, outlays for acquisition or creation of real assets as well as certain financial investments and on the receipts side proceeds from the sale of assets, repayment of investments and borrowings. Both current and capital budgets have mutual transactions too, like transfer for depreciation, etc. This is just on the same principles on which accounts of a business concern are kept. The budget deficit or surplus on capital account results in decrease or increase in the real assets respectively and will have little meaning. Because construction of a plant may result in deficit

while its sale would contribute to a budget surplus. The budget deficit or surplus on current account remains which may be taken as relevant.

For capital and current budgets, it is necessary to distinguish between government investment expenditure and government consumption or operating expenditure. If this distinction is made between capital and current expenditures, and two budgets are established, then all current expenditures of the government including interest on the debt are entered in the current budget and are to be financed out of tax revenue and earnings from government enterprises. Capital expenditures are reserved to the capital budget and are paid for out of borrowings and other capital receipts. Depreciation and obsolescence must be covered by current taxes or, if the project is self-liquidating, then by proceeds of the sales of the State produced commodity. The revenue raised from public enterprises, financed from capital budget, must be sufficient to cover depreciation and interest charges.

The above distinction has been made from the business point of view. Dr. A. R. Prest is of the opinion that, "The commercial distinction between capital expenditure and current expenditure is of dubious relevance in a large area of public sector".[5] However, asset acquisition is not an adequate justification for government borrowing and a separation of current and capital accounts should not be undertaken for the purpose of rationalising government debt creation.

Another basis of classification between 'capital' and 'current' transactions may be the basis of life expectancy. On this basis, 'current' may be defined to include the purchase of goods and services which are consumed within a short period, say, at the most, within the budget year; and 'capital' may be defined to include the purchase of goods and services of a longer life expectancy.

'Revenue producing' basis of separation has also been followed by some governments using double budget system. On this basis, the capital budget should include those projects which are self-liquidating. If the capital budget is restricted to revenue producing projects, it is apparent that its total will be much smaller

[5] A. R. Prest. *Public Finance in Underdeveloped Countries*, p. 126

than if it is on the basis of life expectancy. This basis of classification is not satisfactory for the measurement of the government's contribution to capital formation, as it will understate the government's contribution to capital formation. It is possible to use revenue producing concept as the basic rule for separating current from capital expenditure, but there are certain government expenditures on items which are non-productive in the financial sense. In Sweden, the capital budget lists the Government's total capital expenditure, whether for revenue or for non-revenue producing assets. It is rather advisable to separate the current and capital account transactions where it will facilitate proper management of government affairs. The classification should be such so as to help the government in its functions of policy-making and management, or in other words, which is to administrative convenience. Administrative convenience has to be taken into consideration in separating these two types of transactions. The principle which we use in business affairs cannot be applied in toto to the governmental affairs, though business practice can be applied with advantage to the commercial undertakings of the government. According to Prof. Hicks, "there would be a distinction between government expenditure on current account and on capital account. But it would not be an economist's or a statistician's distinction based on an analogy with private accounting. It would be an administrative distinction based upon administrative convenience".[6] For example, construction of roads or school building is a case of capital expenditure according to commercial accounting principles, but generally government meets these expenditures out of current revenues for the sake of administrative convenience. Government's decision is of prime importance in distinguishing capital and current expenditure.

As regards the distinction between capital receipts and current receipts, all borrowings of the government are to be included in the former. All tax receipts should be treated as current receipts. It is also suggested that revenue derived from income of persons should be taken as current while revenue derived from capital of persons to be treated as capital receipt. According to this basis, the receipts of death duties will become capital. Here too,

[6] Problem of Budgetary Reform, pp. 5-6

administrative convenience should be our guide. Thus administrative convenience, particular circumstances of the country, the system of Parliamentary control and information needed by the government for policy making are the guides for classifying expenditures and revenues of the government between capital and current.

Separation of Budget Between Capital and Current Sections

There are two main considerations which support the separation of budget into current and capital sections. They are, administrative and management considerations and economic considerations.

Administrative and Management Considerations. For an efficient administration and its legislative control, it is desirable that the government's administrative work should be distinguished from management of assets. The administrative activities of the government should be administered and budgeted by traditional departments. The management of assets and other capital projects may be controlled and administered by a separate agency or department. The accounts of that department or agency should be segregated from the general accounts of the State. Thus it will be easy to separate government's operating activities from those of productive activities.

The separation of capital budget from the current one has become essential owing to undertaking of long range public works and development planning. An advanced country may initiate a long period public works projects or an underdeveloped country may undertake a programme of development of resources. These are long range programmes. The adoption of capital and current budget system facilitates the government's development programme. The annual budget results can be appraised in relation to, and as a part of, the long range plan. This type of budgeting is particularly helpful where a large capital outlay has to be incurred on development projects in the public sector.

Economic Considerations. A distinction between current and capital transactions will facilitate the analysis of economic effects of government receipts and expenditures. This distinction

should assist economic analysis of two factors; the effect of government transactions on current consumption and on capital formation and to the effects of government transactions on inflationary and deflationary influences on the economy as a whole.

1. To analyse the determinants of the level of total capital formation, it is necessary to ascertain the source of finance for capital formation. For this, it is required that the government accounts show the portion spent on goods and services for current consumption, the portion saved or disinvested in the public sector on current account, the government's direct contribution to real asset formation and an approximation of the reduction in private expenditures resulting from government receipt. In this respect commercial accounting method comes closer to the economist's conception of current and capital transactions.

For the purpose of economic analysis, it can obviously be no matter of indifference, whether an overall excess of payments over receipts by the government has been due to expenditures on current consumption or due to investment expenditure. In the first place, this may be the result of misallocation of human and material resources, i.e. poorly managed public enterprises resulting in consequent consumption of existing assets. In the second place, the amount of public contribution to capital formation might have been determined by the savings the government had been able to achieve on its transactions on current account. Thus, through efficient management and by application of business accounting methods, productive resources so far immobilised or wasted may be directed to useful productive channels.

2. In analysing the inflationary or deflationary effect on government transactions, it is significant whether there has been net addition or subtraction from private income accounts as a result of government transactions. It is essential to ascertain whether the government has added more to private income accounts than it has subtracted from them.

It should also be considered that during inflation, government's economic objectives may come into conflict. Government contribution to capital formation may increase overall deficits at a time when the inflationary situation might demand overall surpluses. Similarly, during inflation there may be need for increas-

ed expenditure for goods and services currently consumed rather than for addition to real assets. The techiques of budget classification are not meant to resolve conflicts of this character, but budget accounts can provide data which permit analysis of the effects of government activity on various sectors of the economy and which also reveal the overall economic results of government activity.

CLASSIFICATION

Government activities exercise an extensive and decisive influence over the economic affairs of a country. This is comparatively a new concept. Under such circumstances, it becomes necessary to find out new methods for analysing the effects of government activities on the national economy and for providing information how best the influence of the government should be exerted in the general interest of the community. Modern governments are in a position to take decision which can be crucial for the stability of their country's economy in the present and for its growth in the future. They have accepted new and wider responsibilities not only for the balance and growth of their economy, but also for the social welfare of their people. For this, they must also accept the need to improve their knowledge about the economic and social effects of their activities and to equip themselves with adequate means for taking informed and well-conceived decisions of policy.

Thus there is need for organisation of budget data on expenditures and revenues in such a way that they bring out their full economic significance or serve all the needs arising from those new responsibilities for economic and social policy. Budget classification gives information on government operations, and provides the form and structure necessary for analysis and policy making. The usefulness of budget classification techniques can be judged by their ability to facilitate decision-making. Budget classification is the structural key to conscious and rational government budgeting. The manner in which items of revenue and expenditure are grouped in the budget, will be determined by, and also will determine, the character of the decisions that can be made in the budgetary process. The purpose of budget

classification is to present the data in such a way that it gives information desired from different points of view. It is also an objective of budget classification to present the budget data in the form in which Parliament can be made to understand the technicalities of the budget and accord its approval to it.

REQUIREMENTS OF BUDGET CLASSIFICATION

Governmental programmes, after approval by the Parliament, are coducted by Ministries and Departments. These programmes are carried out in conformity with constitutional and legislative requirements. The arrangement of the budget items should be such as to facilitate formulation, execution and accountability of programmes. It is also necessary that arrangements be flexible, so as to be of service in all circumstances. In the arrangement of budget items, the following facts must be considered; (*i*) The budget classification should facilitate formulation of programmes. In the budget, the finance minister proposes to undertake certain projects. These proposals are based on the responsibilities assumed by the government and are shaped by its political, social and economic philosophy. Budget classification should show clearly the programme decisions that have been made and changes recommended from year to year. It is also essential to show the source of finance for a particular programme. It means that programme formulation extends to both the revenue and expenditure side of the budget. (*ii*) The budget classification should also be helpful in effective budget execution. Besides budget classification, other management techniques like cost accounting, etc. are also employed for efficient budget execution. (*iii*) The budget classification should serve the purpose of accountability. For this it is necessary that the responsibilities of collection of revenues and incurring of expenditures should be clearly determined between different departments and officers of the government. Budget accounts should be maintained in such a way that these responsibilities can be defined accurately and precisely. Correct accounting is enforced through audit, and hence it is necessary that the classification should be such that the government transaction can be effectively checked. (*iv*) The budget classification should be established in such a

way that it is possible to analyse the economic effects of governmental activities in all cases where there has been an assumption of responsibility for economic stabilisation or economic development.

There are indefinite ways in which budgetary data may be classified, but certain general classification techniques are broadly useful for economic analysis and policy determination. The budget classification may be according to :

(a) Functions called functional classification,
(b) Organisations called organisational classification,
(c) Objects of expenditure,
(d) Economic Classification,
(e) Performance classification.

FUNCTIONAL CLASSIFICATION

The finance minister has a two-fold task in presenting the budget. The first task relates to the expenditure side. He has to see that the money is allotted and spent in a manner that will most effectively achieve the intentions of his government and in closest accord with the wishes of the people. The second task relates to the revenue side. He has to see that the burden of taxation is distributed according to the accepted principle of social justice. The first task may be regarded as the chief problem of budgeting. Modern government is responsible not only for spending public money but also for balancing the national economy. Hence the main considerations are the purpose achieved by government expenditure. This calls for a classification of expenditure by types of services provided. This type of classification is called 'Functional Classification'. This may be called a 'Citizens Classification'. The object of functional classification is to show government expenditure on immediate or short-term purposes served.

According to functional classification, government activities may be classified under three or four groups like : (1) General Services, (2) Community Services, (3) Social Services, and (4) Economic Services. General Services include primary duties of the Government like national defence, justice, police, general

administration, etc. Community Services include services rendered for community living, like sanitation, water supply, roads, etc. Social services cover social activities like education, health, etc. Economic Services cover all types of activities which are carried out by the public enterprises. The classification may be done as follows :

A. General Services :

1. Defence
   (a) Administration
   (b) Armed Forces
   (c) Navy and Air Force
   (d) Others
2. Justice and Police.
3. General Administration.

B. Community Services :

1. Roads and Bridges
2. Sanitation, etc.
3. Other Services

C. Social Services :

1. Education
2. Health
3. Social Security
4. Others

D. Economic Services :

1. Agriculture
2. Fuel and Power
3. Industrial and Mineral
4. Transport and Communication
5. Others

Each of these heads may be sub-divided into various sub-heads.

For example Education may be subdivided as :

(a) Administration
(b) Primary Education
(c) Secondary Education
(d) Colleges and Universities

(e) Technical Education
(f) Libraries and Museums
(g) Others

Under this scheme of classification, interest on public debt, foreign transfers, etc. cannot be included.

Similarly, there can be a functional classification of revenue. It may be according to major categories of receipts like income-tax, excise, etc. A functional classification of budget is decidedly the best possible form of budget presentation in summary form. This gives a peoples' picture of government activities.

ORGANISATIONAL CLASSIFICATION

Organisational classification means, classification of the budget items according to the organisational units like Departments or Ministries of the government. The organisational units are the 'Doers' in the government, who plan and execute budget programmes. In India, Demands for Grants are put before Parliament ministry-wise. This is an organisational classification of budget. Such a classification is of the greatest significance for legislative authorisation. Audit and accounts of government transactions become easy under such a classification. A specific department or ministry is authorised to make disbursements for specified purposes. But it is necessary that, when adopting this method of classification, the nature and needs of the Department or Ministry should be taken into account.

As regards classification of revenue side on this basis, there may be some difficulty. Because several departments are only expenditure departments. They do not earn any revenue. Hence two courses are open to us, either to classify revenue items on the functional basis or to show revenues of different departments department-wise.

CLASSIFICATION BY OBJECT OF EXPENDITURE

This is the most widely used form of classification for budget expenditure. The object classification is regarded as a major improvement in budgeting. It keeps tight control over expenditure and limits the discretion of government officials. In the

words of Dr. J. Burkhead, "The object classification was the direct product of an era when both legislators and the citizenry at large were filled with distrust for administrators. It was a great technical step forward in budgeting, since it permitted the installation of government accounting systems which could be linked with budget accounts and thus limit defalcations".[7] Through object classification, expenditures can be controlled at departmental level. This kind of classification is followed in India, and heads—Major and Minor and Sub-heads, indicate the object of expenditure. For example, under education head there are :

28, Education	(Major Head)
A—University	(Minor Head)
Pay of Officers	(Sub-heads)
Travelling Allowances	
Pay of Establishment	
Contingencies	
Grants in aid, etc.	

These heads show the object of expenditure. The object classification lays strong emphasis on the accounting aspect of financial administration in government.

An object classification serves certain budgetary purposes. It provides a strong central control over departmental expenditures. Where the objects of expenditure are specified in detail and approved by the legislature in such detail, the discretion of administrative officers is greatly reduced. It limits the freedom of administrative action. The Legislature can also understand the significance of the various expenditures and discuss the policy matters on that basis. This may be regarded advantageous as well as disadvantageous; advantageous because there is effective control over executive and disadvantageous because the discretionary powers of executive are limited. On the other hand, this classification possesses the characteristics of accountability. It helps in designing a pattern of accounts that can be controlled and audited, funds cannot be appropriated except for the specified object. Another advantage possessed by the object classifi-

[7] *Government Budgeting*, p. 128

cation is that it provides useful information for personnel management. The strength of personnel and proposed changes thereof are clearly set forth.

Thus, object classification is most useful, where it is desired to limit the discretion of departmental officers and where it is of utmost importance to ensure detailed accountability.

ECONOMIC CLASSIFICATION

Since the budget is the core of the financial programmes of the government, it is desirable to present the budget in a way that allows not only internal co-ordination and comparability among different financial programmes, but also allows an appraisal of the economic implications of the several budgeted programmes, i.e. the implication for employment, output, investment, price level, foreign trade balance, etc. This objective can be achieved by supplementing the conventional classification of the budget with an economic character classification.

Due to the increasingly important role of government in economic affairs, a government budget should be formulated with these two objectives :

(1) To serve as a major tool of executive management and legislative control over the use of funds; and

(2) to reveal the information significant for an economic analysis of the budget and for economic policy-making. The conventional classification system serves the first objective. It shows the total government expenditure according to purpose such as expenditure on general administration, defence, education, health, etc. However, such a classification does not provide an adequate basis for determining total government expenditure on development, or on maintenance or a like object.

An economic classification, on the other hand, is required to provide data, that are relevant and useful for analysing the influence of government transactions on the economy of the country. Economic classification of budget is useful for distinguishing between, "payment for capital formation, . . . payments for government consumption . . . payments (such as social

security benefits) and receipts (such as taxes) which redistribute the income of the rest of the economy; payments (such as loans and advance) which make funds available for capital formation by the rest of the economy, and receipts (such as borrowings) which transfer part of savings of the rest of the economy to the government".[8]

Thus an economic classification of budget provides material for policy making. This type of classification supplies important information necessary for formulating the economic policy of the government, specially in regard to the promotion of economic development without sacrificing stability. It is intended to help in reaching decisions about governmental policies, that affect the composition and level of economic activity. Modern governments have assumed responsibilities of preventing flations (inflation and deflation), developing natural resources and stabilising the national economy. The economic classification of budget serves as an important tool in carrying out these responsibilities. It becomes important to know the extent to which the service is being provided directly by the government's own expenditure on goods and services, or indirectly by government grants and loans to other bodies providing the same service. The main consideration in economic classification is to know the short-term effect of government transactions in relation to broad economic objectives, such as maintenance of a high and stable level of employment and economic activity, as well as preservation of stability in the internal purchasing power and external exchange value of the currency. In other words, it is desired to know the economic nature of the effects produced by the different types of government transactions and their magnitude. In some countries, notably Sweden and the Netherlands, an economic classification of government activities has become an essential part of the materials of fiscal planning. In underdeveloped countries, an economic classification is a pre-requisite to the formulation of programmes for an increase in capital formation and an improvement in the standard of living of the people.

The aim of an economic classification scheme is to provide the data required for examining the economic effects of Government activity. The scheme has to be considered as part of the wider

[8] 'Report of the Workshop on Problem of Budget Classification', p. 14

system for recording the transactions of all parts of the economy, not only of government bodies. This does not mean that the usefulness of such a classification scheme depends on the existence of similar statistics for the transactions of other bodies. It only means that, for the purpose of analysing the effects of government transactions on the rest of economy, it is necessary to have in mind at least conceptually, a system in which the recording of government transactions can be visualised as part of a consistent record of all economic transactions. This enables one to see the actions of the government in relation to the actions of other sectors of the economy. Economic classification is most fruitful in countries which are in the process of introducing a system of social accounting.

There are certain limitations of economic classification of budget. They are :

(a) Economic classification does not purport to measure the whole of a government's impact on levels of economic activity. It measures a part of the impact and this too only in approximate terms. It can furnish information about the contribution of government to the national income and whether that contribution is increasing or decreasing.

(b) Such a classification can record only those changes which are due to governmental revenue and expenditure and not otherwise.

(c) An economic classification does not, in itself, provide an estimate of the effects of governmental activities on the distribution of income, and not the effects on its division among sectors of the economy (Agriculture, Industry, etc.) This kind of information is of great importance in the formulation of fiscal policy, for both expenditure and taxation.

ECONOMIC CLASSIFICATION OF BUDGET IN INDIA

Since 1957-58, the Government of India has been issuing the economic classification of budget estimates of the Central Government. The object of such a classification of the budget is to present Government expenditure and the mode of its financing in economically significant categories. The different items of

Government expenditure are somewhat dissimilar in their economic significance. A part of Government expenditure, for example, is for the purpose of final goods and services and it is in the nature of a direct draft on the real resources of the community. Another part of the Government expenditure consists of unilateral transfers in the form of grants or subsidies and adds to the purchasing power of the rest of the community. The expenditure on goods and services and unilateral transfers may again be distinguished from expenditure by way of loans or on repayment of debt which changes the net financial claims of the Government against the rest of the economy. A similar distinction may be drawn between items of Government receipts. Again, from the point of view of development, it may be desirable to look at only a part of the totality of Government transactions, e.g. at Government expenditure for capital formation and its financing. These and various other magnitudes, relevant to economic analysis and interpretation, cannot be readily disentangled from the budget without a re-arrangement or re-classification of Government transactions.

There is no single system of classification that can bring out the full economic significance of all Government payments and receipts. An economic classification of Government transactions can only provide a quantitative measure of certain categories, the significance of which is derived from the manner in which they are related to a specific framework of economic analysis. One such framework which has been used extensively in many countries in recent years is a system of national income and expenditure accounts which portray the activities associated with the generation of the total national product and its disposal between consumption and capital formation. To the extent the classification of Government transactions is attempted in a manner which makes it possible to link them with a system of national income and expenditure accounts, to the extent, it would be possible to indicate the share of the Government in the generation of the national product and in national expenditure. The break-up of Government expenditure into consumption and capital formation will show its effects on the level and pattern of expenditure of the rest of the economy.

In India, a limited set of accounts are prepared so as to reveal

the impact of the Governmental transactions on the working of the economy. This limited number of accounts is due to the paucity of statistical data as stated by Shri H. M. Patel, the then Principal Secretary of Ministry of Finance. He states, "The preparation of such a 'national budget' requires a variety of statistical data—enabling reasonable accurate forecasts to be made on different aspects of the economy. All these data are not available, and their built up is a matter of time".[9]

The economic classification of the Government of India's budget is presented in six accounts :

Account 1. Transactions in commodities and services and transfers : Current Account of Government Administration.

Account 2. Transactions in commodities and services and transfers : Current Account of Departmental Commercial Undertakings.

Account 3. Transactions in commodities and services and transfers : Capital Account of Government Administration and Departmental Commercial Undertakings. (combined).

Account 4. Changes in the financial assets : Capital account of Government Administration and Departmental Commercial Undertakings.

Account 5. Changes in financial liabilities : Capital account of Government Administration and Departmental Commercial Undertakings.

Account 6. Cash and Capital Reconciliation Account of Government Administration and Departmental Commercial Undertakings.

The above system of classification is based on a series of distinctions. A distinction is drawn, first, between transactions in goods, services and transfers and financial transactions which affect the net claims of Government on the rest of the economy. The transactions in goods and services and transfers are again divided into current transactions and capital transactions. Similarly, a distinction is drawn between the current transactions of

[9] An Economic Classification of the Central Government Budget for 1857-58, Forward, p. ii

Government Administration and a current transactions of departmental commercial undertakings.

The framework of this classification is briefly explained here :

Account 1. *Current Account* (*Administration*)

In analysing Government transactions, it is useful to distinguish between the activities of Government administration and those of Government commercial undertakings. The latter are engaged in the production or distribution of goods and services for sale to other sectors of the economy, and then add to the Gross National Product. The administrative departments of the Government merely act on behalf of the community as a whole, expending a part of the national product transferred from the community. Account 1 is concerned with the current receipts and expenditures of Government administrative departments. It sets out the final outlay of Government on current account, which is a charge on the national product and represents direct consumption by Government administrative departments. The final outlays are made up of purchases of commodities and services and wage and salaries payments. Apart from its own in the shape of reliefs, scholarships, grants, subsidies, direct expenditure, Government makes transfer payments—to the rest of the economy, which add to the disposable income of the community. To meet all these expenditures, the Government appropriates a part of the community's income through taxes and other receipts accruing in the course of administration. In addition, Government has an investment income from State enterprises and real estate. The balance of revenue, after meeting current expenditure and transfers, gives the saving of Government account available for capital account.

Account 2. *Current Account* (*Departmental Commercial Undertakings*)

The operation of departmental commercial undertakings are of the nature of 'Producers Activities' of Government. The expenditures incurred by these undertakings on purchase of materials, etc. are quite different in character from final outlays of administrative departments. Similarly, sale proceeds of commercial undertakings are different from the receipts like taxes of administration. The undertakings, being commercial in

character, have been dealt with in a different way.

The surplus of commercial undertakings together with savings of Government administration form total savings of the public sector for capital formation. In the scheme of economic classification of Government transactions of the Central Government, undertakings run independently have not been included. Only undertakings run departmentally are included in the scheme.

Account 3. Capital Account : Transaction in Commodities and Services and Transfers (Administration and Departmental Commercial Undertakings).

This account is concerned with the total capital outlay—representing physical asset formation by administration and departmental commercial undertakings. In this account, the physical asset formation by Government has been shown in terms of gross and net asset formation, and net increase in inventories. In case of inventories, a distinction has been drawn between inventories required for construction jobs and for commercial undertakings and inventories of strategic materials like food and steel held for policy reasons. Transfers of capital are also split up between grants to other sectors for capital formation, and miscellaneous items of transfer of a capital nature. Among transfer receipts, foreign grants are shown separately. To the extent the Government capital formation as defined in this account, exceeds Government saving—as brought over from Accounts 1 and 2—there is an expansionary stimulus given to the economy as a result of Government's budgetary operations. The difference between Government savings and Government capital formation is often used in economic analysis as a measure of budgetary deficit. The difference between total Government expenditure on goods, services and transfers and the receipts from transfers, profit and property income of Government provides another measure of budgetary deficit.

Account 4. Capital Transactions : Changes in Financial Assets (Administration and Departmental Commercial Undertakings)

This account is concerned with transactions in financial assets, in other words, with financial investments in industrial and commercial concerns (investment in shares) and loans and advances

granted to the rest of the economy. Loans made for capital formation and loans made for other purposes are shown separately. The balancing item of Account 4, representing the net financial investments, loans and advances of the Central Government, adds to the deficit in Account 3 to give the total requirement of finance to be met out of borrowing or by adjustment in Government cash balances.

Account 5. *Capital Account : Changes in Financial Liabilities (Administration and Departmental Commercial Undertakings)*

In this account are recorded the borrowing operations of the Government including borrowings from the Reserve Bank. The issue of one rupee paper currency notes is also shown, because its economic effect is the same as that of borrowing from the Reserve Bank. The deficits in Accounts 3 and 4 represent the net amount of financial resources required by the Central Government—over and above its transfer and miscellaneous receipts to cover all its consumption and capital outlays, transfers and loans, etc. to the rest of the economy. This Account is concerned with the provision of finance for meeting the excess of outlays—real and financial—over revenues, and elaborate gross borrowing of the Central Government with details of different kinds of borrowings. The balancing item in Account 5 gives the net increase in the financial liability of the Central Government to the rest of the economy.

Account 6. *Cash and Capital Reconciliation Account (Administration and Departmental Commercial Undertakings)*

Account 6 is the Reconciliation Account summing up the net position in respect of Accounts 3, 4 and 5 showing the effect of all transactions of the Central Government on its cash position.

PERFORMANCE CLASSIFICATION

The basis of performance classification of budget is 'what Government does'. This type of classification is suitable where emphasis is on accomplishment rather than on the means of accomplishment. This type of budgeting was adopted in case of Vizagapatnam Port Project. This classification method will be dealt with in detail in Chapter 8 along with Performance

Budgeting.

Out of these methods of budget classification, some of them are of an accounting nature, like object classification. Other classification methods are of statistical nature like Economic and functional classification. The utility of these classification methods can be judged only by the purpose for which they are needed. For programme formulation, the budget classification according to economic, functional, performance and organisations will be very useful. For economic analysis, economic classification and object classification will be helpful. For budget execution and accounting, performance classification, organisational classification and object classification are useful.

CHAPTER V

PROCEDURE OF GOVERNMENT BUDGETING

AMONG THE specific problems of financial administration, nothing is more important than establishing an orderly and efficient system of handling the financial affairs of the government. This problem involves the adoption of means for determining, with maximum accuracy, the revenue and expenditure needs of the government, provision for meeting those needs through the enactment of revenue and appropriation laws, and the establishment of an accounting and auditing system that will furnish a detailed record of the manner in which these laws are administered. It is also necessary to devise a method of control and supervision that will ensure that the various spending agencies are performing their duties properly and are working in proper harmony with each other. The task of determining and making provision for the financial needs of a government cannot be properly performed unless use is made of the budget. No worthwhile improvement in the conduct of the government could be accomplished unless government adopts the budget system.

It may be mentioned here that the Finance Ministry is the Pivot on which budget system rests. An important function of the Finance Ministry is to frame financial rules about the preparation and execution of the budget and about the forms and methods of keeping accounts. The rules provide for the appointment of officers in different ministries, whose duty is to prepare the budget of their respective offices and submit it to appropriate authorities in proper form and at a proper time. The necessary financial power to carry on the day to day administration is delegated to officers of different levels in each department. The most widely delegated power is to draw money from the treasury and disburse it. No amount can be drawn from the treasury unless three conditions are satisfied, viz.

(a) that there is sanction of a competent authority,

(b) that there is budget provision for the amount, and

(c) that the necessary allotment has been placed at the disposal of the drawing officer to cover the charge.

The above conditions are essential and prevent any deviation from the budget as approved by the Parliament. Another important function of the Finance Ministry is to maintain financial order in the administration. This is a co-ordinating function. In a big organisation like that of a government, co-ordination is a difficult task. Besides, the Finance Ministry does other duties directly, e.g. levying taxes, borrowing money, etc. It watches closely the ways and means position of the Government. The solvency of the Government has got to be maintained. Necessary cash balance must be there, so that all payments required daily through the government organisation may be made. Payments are made not by the Finance Ministry but by a large number of disbursing officers scattered throughout the Governmental organisation. The Finance Ministry does not receive any report from the disbursing officers about their monetary requirements, nor does it make monthly allotment of cash. Each disbursing officer is limited only by the budget allotment which he can spend any time during the year according to his requirment. Every month the Finance Ministry has to make a ways and means estimate for the next month. Hence estimate of the probable expenditure for the month is made on the basis of the magnitude of the budget, on the experience about the distribution of expenditure from month to month during previous years and after taking into consideration other relevant factors. Similarly an estimate is also made of the probable input of cash during the next month. According to the ways and means estimate thus made, necessary steps are taken to keep the Government account in the Reserve Bank in sufficient funds.

Before considering the budget procedure as it is found in India, it is better to deal with certain fundamental principles of the system and certain technical words used therein. As it has already been observed in an earlier chapter, the Indian Constitution adopted the fundamental principles governing the British financial system, viz. parliamentary control over receipts and expenditure of public money. In India, control of legislature over the finance of the country was absent before inde-

pendence, but the Indian Constitution gave such control and supreme authority to Parliament. The fundamental principles are :

(1) Parliamentary control over taxation. No tax can be imposed except with the authority of the legislature.

(2) Parliamentary control over expenditure. No expenditure can be incurred except with the sanction of the legislature.

(3) Financial initiative of the executive Government. No tax can be imposed or expenditure sanctioned unless asked for by the executive Government.

(4) Principle of annuality. All expenditure except those specifically charged by any enactment, requires to be sanctioned on an annual basis.

1. *No Tax can be Imposed Except with the Authority of the Legislature*

Art. 265 of the Indian Constitution provides that 'no tax shall be levied or collected except by authority of law'. The Executive Government have to present all tax proposals before the Parliament in the form of a Bill to be passed into Law, and unless an act is passed authorising the levy of any tax, no tax can be levied.

2. *No Expenditure can be Incurred Except with the Sanction of the Legislature*

This principle has been adopted by Art. 266 of the Constitution which lays down that all revenues received, all loans raised and all moneys received in the repayment of loans by the Union or State shall be paid into the Consolidated Fund of the Union or the State as the case may be, and that no money can be withdrawn out of that Fund except in accordance with law and for the purpose and in the manner provided for in the Constitution.

3. *No Tax can be Imposed or Expenditure Sanctioned Unless Asked for by the Executive Government*

The initiative for taxation or expenditure lies with the executive and the Parliament cannot act in these matters *suo marte.*

No bill for imposing any tax can be introduced except on the recommendation of the President (Arts. 117 & 207). In piloting such bills, the Minister in charge states in the notice that the President recommends the introduction of this bill. For obvious reasons, no such bill can be introduced by a private member. Similarly, no demands for grants of any money can be made except on the recommendation of the President (Arts. 113 & 203). When making demands for grants, the Minister in charge states that he is doing so on the recommendation of the President.

4. *Principle of Annuality*

All expenditure except those specifically charged by any enactment requires to be sanctioned on an annual basis. Expenditure of public money has been classified into two classes—charged and voted.

There are certain technical words used in connection with budgeting, a brief explanation of which is essential.

1. *Consolidated Fund and Contingency Fund*

The Constitution has created two Funds in the case of Government of India, viz. The Consolidated Fund and Contingency Fund. All revenues received by the Government of India and all loans raised by it by the issue of treasury bills, loans or ways and means advances, in short, all moneys received or owned by the Government of India, shall form one consolidated fund to be entitled 'The Consolidated Fund of India'. (Art. 266)

The Consolidated Fund is a reservoir of all revenues, taxes and collections raised by the Government to which these belong. It is a device for having in one place in full view all the moneys available for a particular year to be apportioned on the basis of social needs. Prior to the introduction of this system, Government moneys were divided up into numerous funds earmarked for different purposes, and it was impossible to adopt proper financial planning.

Under the provisions of the Indian Constitution, the Parliament may establish a Contingency Fund in the nature of an imprest to be entitled 'The Contingency Fund of India', thus into which shall be paid from time to time such sums as may be determined by law passed by the Parliament (Art. 267).

The Contingency Fund of India Act was enacted in 1950 (Act No. XLIX of 1950). It was provided in the Act that there shall be established a 'Contingency Fund of India' into which shall be paid, from and out of the 'Consolidated Fund of India', a sum of fifteen crores of rupees 'The Contingency Fund of India shall be held on behalf of the President by a Secretary to the Government of India in the Ministry of Finance and no advance shall be made out of such Fund except for the purpose of meeting unforeseen expenditure pending authorisation of such expenditure by Parliament under appropriation made by law'. 'For the purpose of carrying out the objects of this Act', the Central Government may make rules, regulating all matters connected with or ancillary to the custody of, the payment of moneys into and the withdrawal of moneys from the 'Contingency Fund of India'.

2. *Charged Expenditure*

In order that the administration may not come to a standstill, certain classes of expenditure have been 'Charged' on the 'Consolidated Fund of India'. These are in the nature of obligatory payments. The charged items of expenditure are not subject to vote of the Parliament, though the amounts proposed to be spent in any year have to be included in the budget. The following expenditures are 'charged' expenditures :

(a) the salaries and allowances of the Chairman and the Deputy Chairman of the Council of States and the Speaker, and Deputy Speaker of the House of the People.

(b) the emoluments and allowances of the President and other expenditure related to his office.

(c) debt charges for which the Government of India is liable including interest, sinking fund charges and redemption charges and other expenditure relating to the raising of loans and the service and redemption of debt.

(d) (*i*) the salaries, allowances and pensions payable to or in respect of Judges of Supreme Court, Chairman and Members of Public Service Commission.

(*ii*) the pension payable to or in respect of the judges of the Federal Court.

(*iii*) the salaries, allowances and pensions payable to or in respect of judges of High Courts.
(*iv*) the salary, allowances and pensions payable to or in respect of the Comptroller and Auditor-General of India.

(e) any sums required to satisfy any judgement, decree or award of any court or tribunal.
(f) any other expenditure declared by the Constitution or by Parliament by law to be so charged.

3. *Money Bill*

A bill shall be deemed to be a Money Bill, if it contains provisions dealing with all or any of the following matters, namely :

(a) the imposition, abolition, remission, alteration or regulation of any tax,
(b) the regulation of the borrowing of money or the giving of any guarantee by the Government or the amendment of the law with respect to any financial obligation undertaken or to be undertaken by the Government,
(c) the custody of the Consolidated Fund or Contingency Fund, the payments of money into or withdrawal of moneys from any such funds,
(d) the appropriation of moneys out of the Consolidated Fund, and
(e) the declaring of any expenditure to be expenditure charged on the Consolidated Fund or increasing of the amount of any such expenditure.

A Money Bill, however, does not include imposition of fines or demand of fees for licence or imposition, abolition, remission of any tax by a local authority for local purposes.

The Speaker of the House of the People decides whether a bill is money bill or not. His decision is taken as final.

4. *Public Account*

There are a variety of items which go into the Public Account such as State Provident Funds, various deposits under the Income-

tax, depreciation and reserve funds of departments like Railways and Post and Telegraphs, Remittances within India and between England and India, etc. For payments out of the Public Account, no demand is required to be presented to Parliament, and the actual requirements are met, from time to time, as they arise. These payments are largely of the nature of banking transactions. It is correct to say that the money lying in the Public Account does not belong to the Government.

5. *Ad hoc Funds*

The Government has also been permitted to set up ad hoc funds for special purposes such as the General Development Fund. When an amount is transferred to any such Fund, it is shown as expenditure in the estimates of the year in which the transfer is made. Expenditure under different heads, met from these funds, is shown in the estimates of the year in which they are incurred but an equivalent amount is transferred from the expenditure head, by a deduct entry under the head, to the fund. However, approval of Parliament is necessary to any appropriation from revenue to create the fund, and a similar approval is required for incurring subsequent expenditure from such funds. The only exception is where moneys thus collected as fund are made over to corporate bodies with a separate legal status of their own. Parliamentary control is thus secured.

6. *Demands for Grants*

All expenditure, out of the Consolidated Fund, is provided in Demands for Grants. These demands generally cover the requirements of each individual administrative service. For example, a Ministry will have its demands for its own expenditure and one for the expenditure of each of the various departments under its administrative control. There can be more than one major head in a demand and the same Major Head may appear in more than one Demand. The Public Accounts Committee always shows itself strongly opposed to any diminution in the number of votes of which the estimates are composed of as being calculated to diminish the control over those votes by Parliament.

The estimates of expenditure have to show separately the

sums required to meet expenditure which the Constitution has 'charged' upon the Consolidated Fund. The charged expenditure under any head for which there is a voted demand is included in that demand but is shown separately and is not presented for vote. When expenditure is wholly charged, a separate appropriation is included for it in the Book of Demands.

Within each demand the estimates are arranged, firstly under Major Heads, if there are more than one, under the Demand Head and secondly, by suitable sub-heads, indicating broadly the categories of expenditure included in the demand. So long as the total demand is not exceeded, Government and authorities subordinate to them to whom the powers may be delegated, can meet excess under one sub-head from savings in anothers except that excess in charged expenditure cannot be met by savings under voted heads and vice versa.

7. *Supplementary Grants*

Very often it becomes necessary to ask for supplementary grants :

(a) If the amount authorised by the Appropriation Act to be expended for a particular service for the current year is found to be insufficient, or

(b) if there is any expenditure on new service not provided in the budget, or

(c) if, for any reason, money has been spent on any service during a financial year in excess of the amount granted in the budget.

8. *Vote on Account, Votes of Credit and Exceptional Grants*

Pending the completion of ordinary procedure in financial matters, the House of People has the power to pass 'Vote on Account' and 'Votes of Credit' to meet uncertain needs, and to make exceptional grants. The Indian financial year begins from 1st April. It is possible that the House might not have completed all the budget discussions before 1st April. The House passes a Vote on Account which provides the Government with the authority to draw funds for a period of one month. The House of People shall have power :

(a) to make any grant in advance in respect of the estimated expenditure for a part of any financial year pending the completion of the procedure prescribed in the Constitution (in Article 113), for the voting of such grant and the passing of law in accordance with the provision of Article 114 in relation to that expenditure.

(b) to make a grant for meeting an unexpected demand upon the resources of India when, on account of the magnitude or the indefinite character of the service, the demand cannot be stated with the details ordinarily given in an annual financial statement.

(c) to make an exceptional grant which forms no part of the current service of any financial year.

The Parliament shall have power to authorise by law the withdrawal of money from the Consolidated Fund of India for the purpose for which the said grants are made (Art. 116).

PROCEDURE OF GOVERNMENT BUDGETING

There are five stages in the budgetary procedure, viz.

(*i*) Preparation
(*ii*) Presentation and Discussion
(*iii*) Execution of the Budget
(*iv*) National Accounting
(*v*) Audit.

The first, third and fourth are the responsibility of the executive, the second lies within the competence of Parliament, and the responsibility for the fifth develops on the official auditors of the country.

Preparation

On the basis of authority responsible for preparing a budget, there may be three types of budgets. They are (a) Legislative type, (b) Executive type, and (c) Board or Commission type.

(a) *Legislative Type.* This type of budget is prepared by a committee of legislature on the request of the executive. This

type of budget gives more importance to the legislature than the executive. The Legislature prepares the budget as well as approves it. But it is very doubtful, if the legislature is competent enough to prepare the budget, as the requirements of the various departments can best be known only to the executive.

(b) *Executive Type.* In modern times, the executive type of budget is in vogue. This type of budget is prepared by the executive. After the approval of the budget, the responsibility of its execution also lies with the executive.

(c) *The Board or Commission Type.* This type of budget is prepared by a board or commission consisting of wholly administrative officers or of administrative and legislative representatives jointly. This system is in use in some of the States of America and in some Municipal Governments.

The executive is the fit body to shoulder responsibilities of the preparation of the budget. Necessarily and legally the executive should prepare the budget. Rene Stourm observes, "The executive alone can, and should do this work. Situated at the centre of government reaching through its hierarchical organisation to the smallest unit, the executive more than anybody else is in a position to feel public needs and wishes to appreciate their comparative merits and accordingly to calculate in the budget a just appropriation which each of these needs and wishes deserves. Others may know certain details as well possibly better than the executive, but nobody can have so extensive and impartial a view of the mass of these details and no one can compromise the conflicting interests with so much competence and precision. Moreover the executive charged with the execution of the budget is compelled through concern as to its future responsibility to prepare as well execute the plan". He also quotes one French Speaker who expressed, "The pilot in charge of steering a vessel is the only competent judge of the position and of the spread he has need to give his sails, because he alone is posted in such a way as to know the force and direction of the winds and currents which may hinder or delay his movements".[1] Similar views are also expressed by Grover. He states, "the responsibility for preparing the budget upon the

[1] Rene Stourm, *The Budget*, p. 54

executive, a procedure which is quite universally approved among the critics. Public opinion ordinarily holds the chief executive responsible for the financial success and failure of the administration, although he may have little control over either the receipts or the expenditures. The executive is in the best position to view the financial problem as a whole and to assume the responsibilities for the success and failure of a financial programme".[2]

A man who wants to build a house begins by getting plans from the architect, who is to have charge of the construction work, the owner reserving for himself, however, the right to examine, to improve or reject these plans and estimates, if he thinks it necessary. In the same way the legislative body commissions the executive to draw up and to submit to it a programme of revenues and expenditures for the coming year. The Government's part is to propose and the Parliament's part is to grant.

In India, as it ought to be, the responsibility of preparing the budget is shouldered by the executive. But the work of preparation of budget is carried on by four different agencies. The Ministry of Finance, as the branch of the executive dealing with the financial matters of the Government has overall responsibility of framing the budget. The Ministry of Finance is helped by administrative ministries and their subordinate offices in the task of preparing estimates, because they have the detailed knowledge of their requirements. As India has adopted economic planning in a series of Five Year Plans, the Finance Ministry has to be in close touch with the Planning Commission, so as to incorporate plan priorities in the budget. Since the preparation of estimates requires accounting skill as well, the Comptroller and Auditor-General is also involved.

The Indian budget year begins from 1st April, and thus budget grants for a budget year, are available for expenditure from 1st April to 31st March of the year. The preparation of the estimates begins in July or August of the preceding year, when the Ministry of Finance supplies 'Skeleton Forms' to the administrative Ministries and the heads of the departments for estimating their requirements. The general rule is that he who spends

2 Grover, *Financing Government*, p. 587

the money must also prepare estimates in advance. The departments and ministries send the forms to the local offices, for preparing their own estimates. Along with skeleton forms, the Ministry of Finance issues certain directives to serve as a guide to officers in preparing estimates of their departments. It contains, among other things, a stereotyped admonition that the public money should be spent with utmost economy. But this is not all. The Finance Ministry is also engaged throughout the year in threshing out question of expenditure and economy with other departments. The net effect of such efforts, however, seems to be negligible as the various reports of our Estimate Committees and Public Accounts Committees have shown. The cumulative effect of all the acts of waste which might occur throughout the length and breadth of the country, in the course of a year, may be so large that the elimination of waste can release crores of rupees for other projects.

The form for preparing estimates contains the columns for: (1) Actuals for three previous years, (2) Sanctioned estimates for the current year, (3) Revised estimates for the current year, and (4) Budget estimates for the next year. A column is also provided for an explanation for increase or decrease proposed in the estimates.

The following are the chief rules for the preparation of detailed estimates :

Estimates should be prepared on the basis of what is expected to be actually received or paid (under proper sanction) during the ensuing year including arrears of the previous years and not only for the demand or liability falling due within the year. In no case should merely the net receipts or net charges be entered, but the gross transactions in full are to be shown. No item of expenditure should be provided for, which is not covered by sanction—general or specific. If any provision is considered necessary for an unsanctioned item it should be included in Part II (of new proposals). The actuals of past three years are the mainplank on which the structure of estimating rests, but the estimates of receipts or expenditure should not merely be arithmetical average of the three years' figures. The average is a guide but it should not be taken absolutely. In fact, "The task of preparing budget estimate is of one requiring sound judge-

ment and experience. It is not a simple arithmetical exercise in striking out averages of previous years' actuals . . . . Behind figures lies the insistent realities of administration".[3]

The budget estimates are prepared in two parts—part I for the regular schemes and part II for new schemes. Local officers send these forms to the respective heads of the department of the administrative Ministries. Departmental heads after scrutinising and reviewing the estimates, consolidate all estimates of their department and forward it to the Finance Ministry about the middle of November. One copy of each of the departmental estimates is forwarded to the Accountant-General, Central Revenues. He examines the various items and sees that all the sanctioned charges are present in the estimates and that unsanctioned charges have not been included therein. In case any change is suggested by the A.G., C.R., the administrative department will also be consulted before it is accepted. Certain estimates are prepared by Accountant-General for the simple reason that he is in the best position to know the actuals and probables. The A.G. submits these estimates together with his comments to the Finance Ministry by about December. They are accepted without question, since the Government has already assumed liability for these charges.

The estimates of defence are prepared in the following way. The estimates are split up into primary units of appropriation. For instance, under the Army, there are nine primary units of appropriations. Under major services, there are main heads. Thus in the Army under the Major Head, there are such main heads as pay and allowances of the regular Army, pay and allowances of the auxiliary force, etc. Under the Navy and Air Force, instead of main heads, there are seven sub-heads. The overall control of the defence finance is vested in the Finance Wing of the Defence Ministry, which is divided into several branches, each under a principal staff officer. These Branches prepare the estimates which are sent to Defence Ministry. These estimates are in respect of certain categories of expenditure compiled from the material furnished by the subordinate authorities. These estimates are scrutinised in a meeting in the Defence Ministry to which the Services are invited and at which

[3] *P. K. Wattal, Parliamentary Financial Control in India,* p. 49

the representatives of the Finance Division of the Defence Ministry are also present. Then they are sent to the Deputy Finance Officer of Budget who is the Finance Officer in the Finance Division of the Defence Ministry. Finally they reach the Financial Adviser and the secretary and if any further policy decisions are to be taken, it is done at this level. The budget then goes to the Defence Committee of the cabinet for final approval. After approval it is sent to the Budget Division of the Finance Ministry for incorporation in their estimates.

As regards preparation of Railway Budget, a different method is followed in view of its commercial nature. The framing of the budget has to be preceded by a careful forecast of the level of traffic, both passenger and goods traffic, expected to be handled during the budget period. In forecasting this, several factors like, monsoon, the state of export market, competition from road traffic, requirements of heavy industry, etc. are taken into account. On the expenditure side, there are five broad divisions. The first, Administration, includes the cost, mainly for staff of administrative offices and of general departments, like accounts, stores, etc. The second Repairs and Maintenance, is the largest. The third comprises of Operating Expenditure, which includes the cost of the operating staff, fuel, consumable stores, etc. The fourth division consists of items such as retirement benefits, medical aid, health services, contribution to the staff benefit fund, etc. The fifth includes the cost of certain minor works charged to revenue. The budget of each Railway is prepared by the spending departments and subjected to close and expert scrutiny by the built-in financial organisation in each Railway Administration. It is submitted to the Railway Board, which examines it in a thorough manner.

Budget estimates prepared by administrative ministries after they have been verified by the A.G., are scrutinised by the Ministry of Finance. The budget estimates prepared by administrative ministries are broadly divided into three parts (1) Standing Charges, (2) Continuing Schemes, and (3) New Schemes.

(1) *Standing Charges.* These include pay, allowances and honoraria of permanent establishment and office contingencies. The departmental estimates in this respect are sent by the

administrative Ministry direct to the Budget Division of the Department of Economic Affairs of the Ministry of Finance for scrutiny and examination.

(2) *Continuing Schemes.* The estimates of schemes in hand prepared by administrative Ministries are scrutinised in the Department of Expenditure with reference to the progress already made, the commitments entered into, the trends and programme of execution of work for the fiscal year. This Scrutiny is of a continuous type with reference to the performance during the previous year.

(3) *New Schemes.* The Ministry of Finance scrutinises in detail the estimates concerning expenditure on new schemes. The new items of expenditure are first examined by the respective Financial Advisers accredited to the various administrative ministries. Estimates of capital expenditure are examined by the Financial Adviser of the Ministry and further considered and screened by the Department of Economic Affairs in consultation with the Planning Commission. Again, new schemes may be of two kinds. First, those new schemes which have been approved in consultation with the Finance Ministry in course of the year, and which are now forwarded to the Finance Ministry for provision of funds. Secondly, there may be a new scheme of expenditure not previously approved and which is so urgent that it required immediate execution.

The Finance Ministry, before accepting a new scheme of expenditure for inclusion in the budget, satisfies itself with regard to its necessity and urgency. Sometimes it also happens, more frequently at present, that at the time of preparation of the budget a department may not be ready with details of the scheme, but thinks that the scheme is necessary. Under such circumstances it can ask for lump provision in the budget, subject to details being worked out before execution. Under the pressure of schemes for rapid economic development of the country, this practice has become not infrequent. But it has serious defects. Such schemes are generally not planned in sufficient details so that the need for major deviation at the execution stage is also quite frequent. In case of lump provisions, all the details have to be settled after the budget has been passed and financial advice is to be obtained thereafter. Execution of the scheme can start

only after clearing the scheme through Finance. There is often an anxiety to start the scheme immediately after obtaining a budget provision, even though the details of the scheme are still to be settled and the budget provision is just a lump provision and is not the result of any detailed or careful calculation on the basis of concrete details. Usually in the beginning of the year, there is a tendency for things to move slowly; as the year advances, executive agencies start preparing the schemes and their anxiety to do something about the scheme, for which budget provision has been made, increases. Along with such an anxiety, there is an augmentation also of the impatience with the financial advice which very often has to suggest further investigation. Under pressure of such anxiety, some details of the scheme are likely to escape attention. A summary investigation takes place of a detailed investigation or some facts are even sometimes assumed. Probably something is done by the end of the year, but this is not often according to the expectation which was raised at the time of making the budget provision or sometimes the results are also not commensurate with the expenditure incurred. Similarly, when the budget provision on a scheme not planned in all its details or planned on inadequate investigation and the need for major deviation arises off and on, frequent references to Finance and sometimes to Cabinet become necessary. Full explanation for the deviation required has to be given. This obviously results in delay in the execution of the budget. In this connection, the Estimates Committee in its Twentieth Report 1957-58 observed, "It is necessary that the administrative Ministries should submit their respective schemes to the Ministry of Finance for inclusion in the budget only when all relevant details necessary for having a sufficiently clear picture of a particular scheme have been worked out. For this purpose the prospective schemes should be processed throughout the year so that the rush at the time of the preparation of the budget is avoided".[4] The Committee further remarked that, "It is necessary that a procedure should be evolved whereby the necessity of a further sanction after the budget should be done away with and also whereby an assurance would be given to the various authorities including the State Governments that

[4] Twentieth Report (2nd L.S.). p. 22

in respect of funds provided for approved projects, the unspent amount would be available in the next financial year". Another Estimates Committee also observed, "The Committee regard it unsatisfactory that the Finance Ministry should allow itself to be hustled in this way into accepting raw and ill conceived schemes for inclusion in the budget. Such a procedure obviously results in presenting rough estimates to Parliament which may eventually prove to be wrong estimates, laxity of control over the financial aspect of the schemes and eventual delay in the execution of the schemes. The Committee are of the view that the Finance Ministry has a duty and a responsibility to ensure that no scheme which has not been scrutinised is included in the budget. In case such schemes mature during the course of a year and are required to be taken urgently, supplementary demands could always be presented".[5]

The Auditor-General who had a different view, discussed this subject in an Appendix to his Audit Report (Civil) 1955 Part I on the Central Government, and suggested that detailed provision for new schemes not finalized should not be made in the annual budget which should include only lump provision for such schemes. New schemes should be financed by supplementary grants or from the Contingency Fund as they are settled in detail in the course of the year. The Report thus not only supports lump provision or provision before complete planning but suggests that such lump provision should be the rule rather than the exception. It is stated, "It would expedite matters if, at the stage of obtaining Finance Ministry's approval, an administrative Ministry is not required to attempt complete details to enable the Finance Ministry to take a view of the scheme as a whole and its cost. Thus it may be enough if the total cost of the scheme and its breakdown by categories of expenditure such as :

(*i*) Staff and allowances,
(*ii*) Work outlay, and
(*iii*) Contingencies,

is submitted for financial approval. The Finance Ministry could then sanction the scheme on that basis after such exami-

[5] Estimates Committee 1958-59, 55th Report (2nd L.S.), pp. 6-7

nation as it considered sufficient and appropriate, and it should, thereafter, be for the administrative Ministry to sanction further details both of staff and of expenditure, subject to the ceiling and to the provision for particular categories included in the sanctioned scheme. In other words the suggestion implies a division of the financial responsibility between the Finance and the administrative Ministries". (pp. 31-32)

It is further stated, "Demands for grants should be based on administrative charges and expenditure on current projects only. A small provision for some new scheme need only be made to obtain parliamentary approval for their inclusion. As and when new scheme matures sufficiently and estimates are prepared in sufficient detail, a supplementary vote should be obtained from the Parliament, if in session, otherwise allotment of funds should be made out of the Contingency Fund, sufficient to cover the immediate expenditure on the project, until a supplementary grant for the full amount can be obtained from the Parliament. This arrangement will, on the one hand, introduce more realism in budgeting and, on the other, provide a mechanism by which Parliament and Government will be enabled to keep a watch on the performance of the Ministries responsible for the projects". (p. 29)

Thus the following steps are contemplated, viz.

(*i*) The administrative Ministry is not to attempt complete details of the scheme, but to provide an idea of the scheme as a whole and its cost.

(*ii*) The Ministry of Finance is to examine the scheme as a whole and its cost on that basis and approve of the cost for the whole scheme without knowing the cost of components.

(*iii*) A small lump provision has to be made in the budget.

(*iv*) The scheme is to be worked out in detail in course of the year subject to the ceiling of the total cost approved by the Finance Ministry.

(*v*) The necessary financial provision is thereafter to be obtained either by a supplementary budget grant or from the contingency fund.

The same views are also expressed by the Estimates Committee in its Ninth Report 1953-54. The Committee states, "After a

scheme is concurred in from the financial point of view by the Ministry of Finance, the detailed execution of the scheme and spending of money thereon should be the responsibility of the Administrative Ministry concerned which should also be given power to vary or alter the amounts under the subheads of the scheme so long as the total outlay is not affected". It is further stated "After the Administrative Ministry and the Ministry of Finance have approved the scheme, it should be included in the Budget Estimates of the Ministry concerned; and thereafter there should be no further sanction or embargo on re-appropriation within the various sub-heads of the scheme so long as the total amount of the scheme is not exceeded . . . . In case the plan has to be revised and further money is required, the concurrence of the Ministry should be obtained before the additional money needed for the scheme is included in the Budget or Supplementary Estimates".

Two advantages are claimed of this scheme First, it makes a clear division and demarcation of the financial responsibilities between the Ministry of Finance and the administrative Ministry. The Ministry of Finance has overall financial control on financial policy and principle, while detailed financial control is left to the administrative machinery. This view is similar to one expressed by Plowden Committee of the U.K. in these words: "the detailed 'candle-end' control of the past need no longer be exercised by the Treasury, the latter should be vitally concerned with the central problems of priorities and direction in public expenditure".[6] Secondly, this practice will introduce more realism in budgeting and would provide a mechanism by which Parliament and Government will be able to keep a watch on the performance of the Ministries responsible for the projects.

The suggestions may cure the symptom without going into the root cause of the disease. There are two problems. One relates to the division of financial responsibility between the Finance Ministry and the administrative Ministry. The Second is whether detailed planning and detailed estimation of the cost of a scheme should precede budget provision or the Scheme should be provided a lump provision, detailed planning to be followed.

[6] Dr. A. R. Prest, *Public Finance in Underdeveloped Countries*, p. 139

Estimating the cost of the entire scheme without estimating the cost of its component details, is really putting the cart before the horse. It is doubtful whether this can be done at all. How, for example, can the total sum required for staff and allowances be estimated without knowing the strength and classes of the staff required and the rates of their pay and allowances, etc.? How again can the total work outlay be worked out without knowing the details of the work, and the quantities and qualities of the materials used ? A rough idea, cannot be the basis of the preparation or examination of a scheme. The Finance Ministry will have no basis whatever to examine the overall figures or to check the accuracy of the estimates. It is advisable that the administrative Ministry should make the detailed investigation first, obtain the overall estimate on the basis of details and then send the scheme for financial advice. The Finance Ministry can still confine its examination to the general question of correlation of means to end on the basis of overall financial policy and may not go into details. In the United Kingdom also, there has been a tendency to put greater responsibility on departments and relax Treasury control. Prof. Samuel Beer in his 'Treasury Control,' observes as follows :

> "While the Treasury has relaxed in detail its control over complements and gradings, control over the second main branch of establishment work, conditions of pay and service remains absolute and comprehensive and, it may reasonably be argued, must so remain if a unified civil service is to be maintained. The responsibility of the divisions charged with these duties. Establishment, General, Professional, Superannuation and Manning . . . is to see that no change are made in the code of pay or other conditions of service in any part of the civil service except on the initiative or with the concurrence of the Treasury."

There is another defect in the suggestion made by the Auditor-General. Where the House is confronted with a lump provision and the scheme is still to be worked out, the Minister-in-Charge cannot tell the House the details of the scheme, but can only state generally what is intended. The position becomes

extremely unrealistic both for the Minister-in-Charge, as well as for the House. None can do justice to the discussion under such conditions. If, again, the Minister-in-Charge proposes to finance the scheme, when actually worked out, out of the Contingency Fund and then to confront the House with a 'fait accompli', parliamentary control would be meaningless. When the House discusses it first, no details are available and when the House discusses it next, the thing has been done. Moreover, the practice of meeting such expenditure out of the Contingency Fund is against the purpose for which the Fund has been set up. The Fund is to be utilised in very rare cases or emergencies, but this practice gives uncontrolled hand to the Government. Hence the practice of providing lump sums for new schemes or meeting the expenditure of those schemes from the Contingency Fund is unbusinesslike and against the canons of good budgeting. Emphasis should be laid on pre-budget scrutiny. It is bad budgeting to include a scheme without knowing its pros and cons. According to Paul H. Appleby, "The Ministry of Finance needs to shift more of its attention to better budgeting and away from detailed expenditure control over budgeting. Expenditure control in the proper terms which relates outgo, to programme objectives can only be closely and usefully achieved in the programme agencies. It is only when these agencies have had experience in this superior kind of financial management that they will begin to be able to make budget submissions of a proper sort. It is only after the ministries are thus doing an improved job of budgeting, then the Ministry of Finance can produce the kind of budget appropriate to its responsibility".[7]

RE-CLASSIFICATION OF ESTIMATES

The administrative Ministries and departments prepare estimates in the form of standing charges, continuing schemes and new schemes. When they are finally approved by the Ministry of Finance, they are re-classified in the following form :

Pay of Officer
Pay of Establishment
Allowances and Honoraria,
Contingencies and other Charges.

[7] Re-Examination of India's Administrative System, pp. 34-35

This classification was adopted during British regime and is being continued still. In the present welfare state, when Government have undertaken development projects, this old classification needs a change. The Estimates Committee has recommended the following classification :

Standing Charges

Pay of Officers and Staff,
Allowances of Officers and Staff,
Office Contingencies,
Other items (Specifying major items costing over Rs. 10,000 each)

Continuing Scheme

Scheme No. 1 (Name of Scheme),
Pay of Officers and Staff,
Allowances of Officers and Staff,
Office Contingencies,
Other items (Specifying major items costing over Rs. 10,000 each)
Scheme No. 2 (Name of Scheme)

. . . .

Scheme No. 3 (Name of Scheme)

. . . .

Scheme No. 1 (Name of the Scheme)
Pay of Officers and Staff
Allowances of Officers and Staff
Office Contingencies
Other items (Specifying major items costing over Rs. 10,000 each)
Scheme No. 2 (Name of the Scheme)

. . . .

Scheme No. 3 (Name of the Scheme)

. . . .

This classification of estimates shall make the whole expenditure scheme clear.

ESTIMATES OF REVENUE

Estimation of revenue is also an important aspect of budgeting. This is done by the Finance Ministry in consultation with the Central Board of Revenue (now split up into two Boards, Central Board of Direct Taxes and Central Board of Indirect Taxes), and helped by Income-tax, Central Excise and Customs departments which are important revenue collecting agencies. The estimates of revenue supplied by the Central Boards are based on its own interpretation of the probable trend of revenue, and that interpretation is largely derived from the budget estimates supplied by the Income-tax Officers, Collectors of Customs and central Excise to the Statistics and Intelligence Branch of the C.B.R. A forecast is made of the expected revenue for the coming financial year. The Finance Ministry then makes alteration in the rates of taxes to meet the requirements of expenditure. The rates of taxes may be increased or decreased or new taxes may be levied or old ones may be abolished.

CRITICAL ANALYSIS OF THE BUDGETARY PROCESS

The whole efficiency of the budgetary process depends upon the closeness of the estimates. The absolute approximation of estimates to actuals is impossible because, the conditions which a budget covers cannot be controlled by the authorities like a scientist in his laboratory. The very nature of things make it difficult to make absolutely correct estimates. A variation is inevitable, but the margin should not exceed by plus-minus 5 per cent. If great variations are found between estimates and actuals, the Public Account Committee demands an explanation because the Parliament is interested in seeing that nothing more than the absolute minimum necessary is extracted from the tax-payer and the administrative departments do not obtain more money than they actually need, or else the cause of other necessary expenditure may suffer.

As regards estimates for revenue, there is the general tendency among the estimating agencies to under-estimate the revenue. In order to show the efficiency of the departmental officers, this tendency is generally followed. If the actual revenue is more than the estimated, it is generally taken that the department is

working efficiently. 'If we have to err, err on the safe side' is the guiding principle of the officers. An under-estimate of revenue gives them a chance of providing for unexpected circumstances which may result in fall of revenue.

So far as estimates for expenditure are concerned, it has been alleged in certain quarters that there is a general tendency on the part of estimating agencies to overestimate the expenditure. The departments put their demand in increasing terms, so that, after the censoring by the Finance Ministry, they get what is required. For example, if in a department there is need for three assistants, a demand will be made for five assistants, for fear that the demand may not be sanctioned in full. After the cut made by the Administrative Ministry and Finance Ministry, the department may get three assistants' posts sanctioned which is the required number. Similarly, demands for stationery and contingencies are made for more than the actual requirements. Over-estimating is no doubt useful from the practical point of view of administration, but is not good from the point of view of sound budgeting. Over-estimation of expenditure is also done to avoid the criticism of the Parliament, which is made at the time of making supplementary demands. It should be the exception rather than the rule in a nation's budgetary system.

The proforma budget of the Government of India is given on the following pages.

STATEMENT OF THE REVENUE AND EXPENDITURE MET FROM REVENUE STATEMENT NO. I

	Accounts 1962-63	*Budget Estimates* 1963-64	*Revised Estimates* 1963-64	*Budget Estimates* 1964-65
I. CONSOLIDATED FUND OF INDIA				
Revenue				
Principal Heads of Revenue				
Customs				
Union Excise Duties				
Corporation Tax				
Taxes on Income other Corporation				
Tax and Estate Duty				
Estate Duty				
Opium				
Other Heads				
Total Principal Heads				
Contribution from Railways				
Irrigation Net Receipts				
Post & Telegraph (Net)				
Debt Services				
Civil Administration				
Currency and Mint				
Civil Works and Miscellaneous				
Public Improvements				
Electricity Schemes				
Miscellaneous contributions and				
Miscellaneous Adjustments between				
Union and State Govt.				
Extra-Ordinary Items				
Total Revenue				
Excess of Expenditure over Revenue or Deficit				
TOTAL				

	Accounts 1962-63	Budget Estimate 1963-64	Revised Estimate 1963-64	Budget Estimate 1964-65
I. CONSOLIDATED FUND OF INDIA				
Expenditure.				
Direct Demands on the Revenue.				
Irrigation				
Debt Services				
Civil Administration				
Currency and Mint				
Civil Works and Miscellaneous Public Improvements.				
Electricity Schemes				
Miscellaneous Defence Services				
Contributions and Miscellaneous Adjustments between Union and State Governments.				
Extra-ordinary Items				
	....	....	....	....
Total — Expenditure met from Revenue				
	....	....	....	....
Excess of Revenue over Expenditure or Surplus				
	....	....	....	....
Total				
	....	....	....	....

STATEMENT OF THE RECEIPTS AND DISBURSEMENTS

STATEMENT NO. 2

RECEIPTS	*Accounts* 1962-63	*Budget Estimate* 1963-64	*Revised Estimate* 1963-64	*Budget Estimate* 1964-65
I. CONSOLIDATED FUND OF INDIA				
Revenue Surplus				
Capital Accounts outside The Revenue Account				
Permanent Debt (Net)				
Loans and Advances by the Central Government (Net)				
Inter-State Settlement (Net)				
	....	....	....	....
Total I — Consolidated Fund of India				
	....	....	....	....
II. CONTINGENCY FUND OF INDIA				
	....	....	....	....
III. PUBLIC ACCOUNT				
Unfunded Debt				
Depreciation and other Reserve Fund (Net)				
Appropriation for reduction or avoidance of Debt. (Net)				
Remittances (,Net)				
Transfer of cash between England and India (Net)				
	....	....	....	....
Total III — Public Account				
	....	....	....	....
Total Receipts				
	....	....	....	....
Opening Balances				
	....	....	....	....
TOTAL —				

RECEIPTS	Accounts 1962-63	Budget Estimate 1963-64	Revised Estimate 1963-64	Budget Estimate 1964-65
I. CONSOLIDATED FUND OF INDIA				
Revenue Deficit				
Capital Account not met from Revenue				
Permanent Debt (Net)				
Floating Debt (Net)				
Loans and Advances by the Central Government (Net)				
	....	....	....	....
Total I — Consolidated Fund of India				
	....	....	....	....
II. PUBLIC ACCOUNT				
Unfunded Debt (Net)				
Depreciation and other Reserve Funds (Net)				
Appropriation for Reduction or avoidance of Debt (Net)				
Other Deposits and Advances (Net)				
Remittances (Net)				
Transfer of Cash between England and India (Net)				
	....	....	....	....
Total — Public Account				
	....	....	....	....
Total Disbursements				
	....	....	....	....
Total				
	....	....	....	....

Statement No. I *or the Revenue Budget*

It entirely deals with Revenue and Expenditure met from the Consolidated Fund of India. The receipts are mere estimates for which no specific vote is necessary. In order, however, that the Parliament may assess the extent of taxation, these estimates have to be shown. The expenditure out of the Consolidated Fund will have to be supported by 'Demands for Grants'. The difference between 'Revenue' and 'Expenditure' will represent either a deficit or a surplus which is carried over to the next statement.

Statement No. 2 *or Capital Budget*

It deals with Receipts and Disbursements on other accounts. It will be noticed that the 'Capital Budget' is presented under three sections, viz. (*i*) The Consolidated Fund of India, (*ii*) The Contingency Fund of India, and (*iii*) The Public Account. It should further be observed that the Consolidated Fund appears both in the Revenue Budget as well as in the Capital Budget which indicates that, within the Consolidated Fund of India, there are receipts as well as payments both of Revenue and of Capital nature.

The capital requirements of the Government are ordinarily met from four sources :

(*i*) Regular loans, either from home market or abroad but in the case of short-term requirements, by issue of Treasury Bills;

(*ii*) The receipts through Postal Saving Bank and Savings Certificates, etc.;

(*iii*) The receipts into the various Reserve and other Funds and under the Deposit Heads;

(*iv*) Sums provided in the Revenue Budget for reduction or avoidance of debt or for debt redemption. These amounts are appropriated from the Revenue Budget and transferred to Capital by debit to the Revenue Budget.

If the net receipts from these sources are insufficient to meet the capital requirements, the deficit has to be made good from revenue or the accumulated cash balances. If neither is available, recourse is taken to the sale of *ad hoc* Treasury Bills to

the Reserve Bank. Conversely, any surplus of capital receipts over disbursements is available for covering a revenue deficit or for augmenting the cash balances of the Government.

PRESENTATION AND DISCUSSION

In all democratic countries, the budget, after being prepared by the executive, is presented in the legislature, where it is discussed and finally approved. The legislative authorisation of the budget puts life into the budget. The responsibility of presenting the budget to the legislature is shouldered by the executive. Some one representing the executive must present the budget. This is essential, because, "Centralised executive responsibility for budget preparation and submission will facilitate budget authorisation by the legislature and enable it to center attention on programme review and policy considerations".[8] The presentation of the budget gives an opportunity to formulate, policy for the nation and to keep a watch over administration. The legislature's review of the executive's budget provides a major occasion for examination of the character and quality of administrative actions. Such examination is inherent in the review of the programmes, and every legislature has a watch-dog responsibility.

In India, the long efforts of various departments and Ministries in preparing estimates, are reduced into two important documents, i.e. the Annual Financial Statement and Demands for Grants. As per the Article 112 of the Indian Constitution, the President, in respect of every financial year, causes to be laid before both the Houses of Parliament, the annual financial statement of the Central Government. The Parliament provides funds on the basis of the following principles :

(*i*) The appropriations are made to the administrative bodies only to carry out purposes previously authorised by law.

(*ii*) The appropriations are usually made for a budget year only.

(*iii*) The 'bills for raising revenue' originate in the Lower House, i.e. Lok Sabha.

[8] Burkhead, *Government Budgeting*, p. 306

(*iv*) The administrative agencies are expected to perform their work in strict accordance with the provisions of appropriation law. It means that funds shall be spent only for the purposes appropriated.

The estimates of expenditure presented before the Parliament for approval, embodied in the annual financial statement, are of two types :

(1) The sums required to meet expenditure charged upon the Consolidated Fund of India. Such expenditure is called 'Charged Expenditure'.

(2) The sums required to meet the other expenditure proposed to be met from the Consolidated Fund of India. Such expenditure is voted by the Parliament and hence it is called 'Voted Expenditure'.

The 'Charged Expenditure' is not submitted to the vote of the Parliament, but there is nothing to prevent its discussion in either House of Parliament. The right of discussion carries no weight in the case of charged expenditure. It would have been better if this Charged Expenditure had been simply Charged on the revenues of India, because it has the prior approval of the Parliament. When the Parliament cannot reduce or increase or vote this expenditure there is no utility in discussing it. Mere information without the right of discussion to the Parliament would suffice, because whenever there is any change in the items of charged expenditure, the Constitution has to be changed, and that will be done with the approval of the Parliament.

So much of the said estimates as relate to votable expenditure shall be submitted in the form of demands for grants to the House of the People, and the House of the People shall have power to assent or refuse to assent to any demand, or to assent to any demand subject to a reduction of the amount specified therein. (Art. 113)

It will not be out of place here to discuss the financial powers of the Council of States (Rajya Sabha) *vis-a-vis* the House of the People (Lok Sabha).

In money matters, the Lok Sabha has supremacy over the Rajya Sabha. The Indian Constitution provides that :

(1) Money Bill shall not be introduced in the Council of States.

(2) After a Money Bill has been passed by the House of People shall be transmitted to the Council of States for its recommendations, and the Council of States shall within fourteen days from the date of receipt of the Bill, return the Bill to the House of People with its recommendations, and the House of People may thereupon either accept or reject all or any of the recommendations of the Council of States.

(3) If the House of People accepts any of the recommendations of the Council of States, the money Bill shall be deemed to have been passed by both Houses with the amendments recommended by the Council of States and accepted by the House of People.

(4) If the House of People does not accept any of the recommendations of the Council of States, the Money Bill shall be deemed to have been passed by both Houses in the form in which it was passed by the House of People without any of the amendments recommended by the Council of States.

(5) If a Money Bill passed by the House of People and transmitted to the Council of States for its recommendations is not returned to the House of People within the said period of fourteen days it shall be deemed to have been passed by both Houses at the expiration of the said period in the form in which it was passed by the House of people.

PRESENTATION OF THE BUDGET IN THE HOUSES

By practice and convention, the last working day of February has been fixed for the presentation of the budget in the Indian Parliament, except in exceptional circumstances when the date can be changed. The day of the presentation of the budget or the 'Budget Day' is deemed to be an occasion of great interest and excitement. That day is the Finance Minister's day. On that day, every citizen becomes eager to listen to the words of one man, i.e. the Finance Minister. The floor of the House and all the gallaries are packed with people on the tip toe of curiosity. Exactly at the appointed time, the Finance Minister enters the House, with the Minister of Parliamentary Affairs, and generally begins his speech at 5 p.m., which is usually known

his budget speech. The speech generally takes several hours to deliver and is listened to with rapt attention. In the first part of his speech, the Finance Minister reviews in a general way the out turn of the previous and current years and then discloses, in the second part, the money required for the next financial year and his tax proposals for raising the money as demanded. The presentation of the budget in the Parliament is an important occasion and opportunity is often taken to make announcements of policy which have a bearing on the economic and financial position of the country. The estimates of expenditure show separately the sums required to meet the charged expenditure as well as other estimates of expenditure proposed to be met from the Consolidated Fund of India. The expenditures also distinguish expenditure on revenue account from other expenditures. The Finance Minister also introduces a bill known as 'Finance Bill' to give effect to the financial proposals contained in his speech. The taxes become effective immediately on the introduction of the Finance Bill because our Provisional Collection of Taxes Act of 1931, provides that if a declaration has been embodied in such a Bill the taxes shall become effective immediately and shall remain in force for two months unless in the meantime the Bill has been passed.

A separate Railway Budget is presented by the Railway Minister in the first or second week of February. It contains the Demands for Grants for Railways, and the Railway Minister, in his speech, introduces the budget and explanatory Memorandum of the Railway Budget.

There is no discussion of the budget on the day on which it is presented to the House. (Rule 205, Rules of Procedure and Conduct of Business in Lok Sabha). After a few days of the presentation of the budget, the Lok Sabha discusses the budget in full, i.e. both the expenditure as well as taxation proposals. It is a general discussion which may be called as discussion on the economic and financial policy of the Government. Non-votable or charged items may be discussed at this time alone and not at the time of making Demands for Grants. No motion is moved and the budget is not submitted to the vote of the House at this stage. The time and days of discussion are fixed by the speaker in consultation with the leader of the House. The

Speaker's direction[9] regarding budget discussion is, "that during the general discussion on the budget, the House will be at liberty to discuss the budget as a whole or any question of principle involved therein. The scope of discussion at this stage is thus confined to the general examination of the budget, i.e. the proper distribution of the items of expenditure according to the importance of a particular subject or service, the policy of taxation as it is expressed in the budget and in the speech of the Hon. Finance Minister".

"Members may, therefore, make observations in regard to the general scheme and the structure of the budget. The general scheme of the budget will include consideration of revenue, surplus or deficit, revenue and expenditure account and the overall surplus or deficits. So far as the revenue account is concerned, members may take into account the method of estimation whether the revenue is over-estimated or under-estimated, whether the expenditure is pitched too high, etc."

"As regards general grievances, they may be referred for ventilation at the time of considering the Finance Bill. That will also be the proper occasion for going into details of taxation and matters related thereto. Similarly details of expenditure may be discussed when demands for grants come up before the House."

During the discussion of the budget in the Parliament, the Finance Minister or some one representing him remains present in the House. The Speaker fixes the time limit for members for expressing their views. He allots 20 to 30 minutes to the leaders of the parties and 10 to 15 minutes to other members. While fixing the time limit, he keeps in mind that every party gets full opportunity to discuss the budget. The practice of fixing the time limit of speeches in budget discussion is not found in England. There, Indian system is regarded as fortunate. Moreover, uncontrolled speech is a luxury which a poor country like India cannot afford, because every minute costs huge amount to the people. The Finance Minister makes a general reply at the end of the discussion. He is generally given an hour to reply to the debate. By convention the number of days which are allotted for the various stages of the budget are as follows :

[9] 'L. S. Debates', Third Series vol. II-No. 16 Col. 2879-80

	House of People	*Council of States*
RAILWAY BUDGET :		
General Discussion	3	2
Demands for Grants	3	–
Appropriation Bill	3	1
GENERAL BUDGET :		
General Discussion	4	3
Demands for Grants	15	–
Appropriation Bill	1	1
Finance Bill	4	1

The discussion is very general in nature and every subject is considered relevant during budget discussion. Subjects like, border problem, national integration, corruption, inefficiency, rise in price level, etc. come up for discussion in the House. No member discusses the budget estimates as presented by the Executive in the Parliament. Thus little purpose is served by such discussion except which end in remarks and counter remarks by the opposition and the party in power. To make budget debate useful, irrelevant and general discussion should be avoided. Such an occasion should not be utilised for either criticising the Government or for ridiculing the opposition. The House should utilise the time in discussing details of estimates. The House does not satisfy itself whether the details have been correctly arrived at, whether there is justification for the various amounts shown for the various services and supplies, establishments, projects and schemes and whether the expenses are commensurate with the achievements. For this, the suggestion of Shri Ananthasayanam Ayyanger, the Speaker of the Second Lok Sabha is noteworthy. He, while inaugurating the 25th Conference of Presiding Officers suggested that, "As soon as the budget is prepared and placed on the Table of the House, the general discussion on the budget goes on for four days. Thereafter, I would like the whole House to go into a Committee split up itself into a number of sub-committees, one each for a Ministry, so that the Minister may sit along with members across the table and then discuss matters relating to that Ministry on the basis of recommendations of the Estimates Committee. But the time for it has not yet come". This is the proper time to implement this suggestion of a learned Speaker.

When the general discussion of the budget is over, Lok Sabha proceeds to examine the estimates Ministry-wise. The Lok Sabha examines the estimates thoroughly and much of the time is taken in the discussion of the estimates. The Demands for grants are presented Ministry-wise, and therefore, it is easy for the House to consider the Demands and the working of each Ministry. The Speaker allots two to three days for discussion and voting of Demands for a Ministry. A maximum time limit is also fixed for discussion for a particular Demand. On the last day of the allotted days, the Speaker puts forth all the remaining Demands to vote. This is called Guillotine. The Demands is made in a motion: "that a sum not exceeding Rs. . . . be granted to the President to defray the charges which will come for payment during the year ending 31st March, 19 . . . in respect of . . . (the subject of Demand)". A demand when voted becomes a grant. At the time of presenting the Demands, the annual reports for the Ministry, and the Demands which are being considered are presented to the House. These reports describe the working of the Ministry during the past year, their important achievements, their proposals and programmes for the next year and justification in broad terms for the additional monies asked for. The annual reports of the Ministries are being submitted to the House since 1951. These reports also form the subject of discussion during the passage of a Demand in the House. These reports are very popular with members because they give the sort of information which is useful in discussing the grant in question. This procedure saves the Minister from making an opening speech in the House and more time is thus available for members to discuss the Grant.

CUT MOTIONS

During the discussion, members move cut motions. The idea behind the cut motions is that, members should specify the point on which they wish to focus attention during the discussion.

There are three kinds of cut motions. They are—'Policy Cut Motions', 'Economy Cut Motions', 'Token Cut Motions'. There are prescribed forms in which these cut motions are moved.

Whenever a disapproval of policy cut has to be moved the

motion is 'that the amount of the demand be reduced to Re. 1'. Whenever an economy cut is moved the motion is 'that the amount of the demand be reduced by a specified amount'. Whenever a token cut is moved, the motion is 'that the amount of the demand be reduced by Rs. 100'.

Each motion specifies the point in precise terms which a member wants to discuss. For example when the discussion is on a policy cut, a member can advocate an alternative policy; for an economy cut, the speech is confined to the discussion as to how economy can be affected. As regards 'token cut', the discussion is confined to the particular grievances specified in the motion. The Speaker decides on the admissibility of each motion according to rules and practices, before he puts it to the vote of the House. Hundreds of cut motions are moved in the Lok Sabha. Not all of these cut motions are discussed and fewer still are ultimately put to the vote of the House. Historically speaking, during British regime, when the Government was not responsible to the Legislature, nationalist opposition made much use of cut motions in order to ventilate their grievances, to attack the policy of the Government and to indicate the lines along which economy could be effected. This was, therefore, a very effective weapon in their hands when the budget was under discussion. The historical hangover still persists and although the members of the Congress Party (the present ruling party) do not move any cut motions because the party has issued directions to its members not to bring cut motions, as that would mean disapproving the policy of their own Government, nevertheless, members of the opposition do table hundreds of cut motions. Though these cut motions tend to increase the work in the Secretariat of the Parliament and of the various ministries, which are required to prepare briefs for the Ministers, to look into hundreds of local grievances, to collect data, facts and other material for the use of Ministers at short notice, yet they generally do serve a very useful purpose. They bring to light many of the defects that might go unnoticed, because of the vastness of the Governmental Administration. Members who come from all parts of the country and have intimate contact with the public gather cases of mal-administration, inefficiency and the like and when they bring them on the floor

of the House, the grievances receive consideration at the hands of Minister and senior officials of the Ministry concerned. Dr. John Mathai, when he was Finance Minister, often said that by means of questions tabled by members and during discussion on the budget, he gathered such a lot of information about the working of the departments that he was able to locate defects and take such remedial measures as were necessary. He said that but for such a parliamentary opportunity, he might never have come to know of the numerous details.

If a cut motion is carried in the House, it has a serious consequence on the fate of the Government. A defeat on a financial measure is a major defeat for the Government and that Government will have to consider seriously whether to continue in office or resign. Normally it should resign.

In the U.K., nowadays, cut motions are rare due to psychological and political reasons. In the present day developing society, there is need for more expenditure so that the nation-building processes may continue at a rapid rate. Members, therefore, argue during discussions that more money should be found for this service or that. Members feel that if they gave notices of cut motions or moved such cut motions, a story might go around their constituencies that the members were not pressing the Government for allotting more money for works in their areas but, instead, were asking for cuts. Such a psychological effect on the people would be dangerous for the Member's position in his constituency. The members indicate alternative policies and represent their grievances, without moving a formal cut motion. In future, in India, this may also be followed when our electorate becomes more educated and takes more interest in the parliamentary procedure.

Meanwhile, it may also be noted that the passing of Demands takes much time, and, if it is not possible to finish the business of Demands upto 31st March, the House passes a Vote on Account to carry on the Government in the beginning of the new year until Demands are passed by the House, and the Appropriation Bill is assented to by the President. The Vote on Account is passed without discussion except to the extent of seeking elucidation of any extra-ordinary provision. In India, a Vote on Account is for one month. If the Government have asked for

more than 1/12th under any head and the explanation is not satisfactory, any member may ask for an explanation and if he is not satisfied, ask for a debate which is usually granted.

After the voting of the Demands, an Appropriation Bill is introduced in the Lok Sabha. The Appropriation Bill is considered and passed like any other Bill, except that no amendments can be moved to the Grants as voted by the House. Normally, no discussion is permitted unless the member who desires to have a discussion, shows to the satisfaction of the Speaker that he has some new points to discuss which have not already been covered by the discussion on the budget and the Demands relating to Ministries. The Rule 218 (4) of the Rules of Procedure states that, "The debate on an Appropriation Bill shall be restricted to matters of public importance or administrative policy implied in the grants have not already been raised while the relevant demands for grants were under consideration". Even if such a discussion is allowed it must conclude within the allotted time and the Bill must be passed within the prescribed time-table.

The passage of the Appropriation Bill is necessary because no money can be withdrawn from the Consolidated Fund, unless it is authorised by law. Therefore, monies can be withdrawn from the Consolidated Fund of India only after the Appropriation Bill has been passed.

After the monies have been voted, by the House it will have to consider the ways and means of raising the revenue to meet that expenditure. So it has to consider the second aspect of the budget, i.e. income side. This is achieved by passing the Finance Bill, which is introduced at the time of presentation of the budget. All the taxation proposals are embodied in the Finance Bill. Moreover, all the taxes are not to be voted and authorised every year. Some of them are permanent and their rates can be varied from time to time by the Government under the provisions of the law governing them. The rates of taxes, such as income-tax, customs, excise, etc. are annually determined by the Parliament. The Finance Minister moves a motion that, "the Finance Bill be taken into consideration", and then a member may discuss matters relating to general administration, local grievances within the sphere of the responsibility of the

Government or monetary or financial policy of the Government. The Finance Bill is the one Bill where the rule of relevancy in debate is dispensed with. Then the Bill is referred to a select committee of the House. The select Committee reports back the Bill with its criticisms and proposals and the Bill is then discussed in the House, clause by clause. Amendments can be moved but not in respect of increase of any tax or introduction of any new tax. After the discussion of the Bill and amendments, motion is moved that, "the Bill be passed by the House" and if the majority favours it, the Bill is passed.

Now, coming to the procedure in the Rajya Sabha, the Budget is laid on the table of the Rajya Sabha after the conclusion of the Finance Minister's Budget speech. The Rajya Sabha has a general discussion on the budget for two or three days. Then it proceeds to examine the estimates Ministry-wise, but does not do any detailed examination of estimates, because it has no such power under the Constitution. The Finance and Appropriation Bills are sent to Rajya Sabha after they have been passed by the Lok Sabha. The Rajya Sabha discusses these Bills within the time schedule proposed by the Government and, in any case, that House has to discuss and return the Bills within 14 days of the date of receipt. If the Bills are not returned within that period, the Lok Sabha assumes that the Rajya Sabha has concurred in the Bills and presents them to the President for his assent. The Rajya Sabha has no right to make amendments to the Money Bills.

EXECUTION OF THE BUDGET

The carrying out of the budget is an executive responsibility. The procedure for budget execution depends upon the distribution of power within a government. For an efficient execution of budget strong central direction and control is necessary. "If this is not done the budget will fail in a large measure to accomplish its purpose, which is to produce stability in government's finance by making both ends meet".[10]

An ideal system of budget execution must try to achieve the following objectives :

[10] A. E. Buck, *Public Budgeting*, p. 452

(a) *Preserving Legislative Intent.* The budget to be executed is the budget as passed by the legislature. Only then sovereignty of the people and authority of the legislature can be kept intact.

(b) *Observing Financial Limitations.* Financial limitations expressed by the legislature should be adhered to. Budget execution, as a matter of fact, relates to financial control. There should be efficient use of resources with consideration of economy. Keeping the budget within the prescribed financial limits, does not mean controlling of expenditure. The income side must also be regarded, and all this should be done by the budget execution authority. The government must see that funds are available for payment of bills when and where presented. This requires an efficient cash planning on the part of the government.

(c) *Maintaining Flexibility.* Economic conditions and some programme conditions change over time, there may be cost fluctuations in the programmes. Hence the budget execution system should be able to cope with these changes.

EXECUTION OF THE BUDGET IN INDIA

The Ministry of Finance of the Government of India exercises great control over the budget execution. The Finance Ministry is the Government's instrument for carrying out its financial policy and for supervising the activities of the Ministries. The whole process of budget execution revolves round the Finance Ministry.

The budget execution is done through :

(*i*) a system of controlling officers;
(*ii*) a system of competent authorities who issue financial sanctions;
(*iii*) a system of drawing and disbursing officers; and
(*iv*) a system of payment and accounts.

Ordinarily, the head of the department acts as the controlling officer in regard to that part of the budget with which the department is concerned. After the approval of the budget and the passage of the Appropriation Act by the Parliament, the Minis-

try of Finance communicates to each Administrative Ministry that part of the budget with which it is concerned. The Ministry, then, distributes and communicates the sanctioned funds among the various controlling officers under it, or among the various disbursing officers if the department itself is the controlling authority. The duty of a controlling officer is a two-fold one. First, he must carry out the work entrusted to him and secondly, he must see that the work is done according to the plan contained in the budget as approved by the Parliament. On receiving the intimation from the administrative Ministry, the controlling officer distributes the total grant among the different authorities who are concerned with the minor heads or sub-heads. The authorities are called disbursing and drawing officers.

For the purpose of payment, there are treasuries and sub-treasuries all over the country. Drawing and disbursing officers present bills and draw cash from treasuries. For the purpose of pay, the gazetted officers are their own drawing officers. For the non-gazetted officers, the head of the office draws the money and disburses it to the employees. The treasury officer makes the payment if the bills are in order and according to sanctions and provided there is budget allotment. At the end of each day the treasury officer compiles the account. The daily accounts together with the vouchers are sent to the Accountant-General periodically.

When the administrative Ministry and the controlling officers distribute the grants, they send a copy of the distribution to the Accountant-General, who, in turn communicates the distribution to the treasuries so that he also has a method of controlling the progress of expenditure. Thus there is a double edged control for every expenditure, one from the administrative end and the other from the payment end. The Accountant-General watches the progress of expenditure against parliamentary sanction under each detailed head. The controlling officer, at his end, gets similar information from the disbursing officers and thus is able to watch the progress of expenditure. At various levels the progress of expenditure is compared as between the administrative and payment ends and in this way an attempt is made to check the correctness of each other and to detect mistakes at the

earliest opportunity.

There is continuous review and appraisal of the budget. The first such review known as the preliminary review takes place in September, when four months' actual expenditure is available. The next review is in December. The revised estimates are prepared in January and the review is conducted with reference to nine months' actuals. Finally, there is modified appropriation for the final estimates. During these reviews it is also ascertained whether it is necessary to go to Parliament for additional funds. As the year progresses, many departments consider that more money is necessary. There may be other departments which consider that they do not require all the money sanctioned by the Parliament for them. The departments requiring more money approach the Finance Ministry for moving the Parliament for a supplementary grant. If the Finance Ministry is satisfied, it presents a supplementary budget and gets the approval of the Parliament thereto. Now-a-days presentation of supplementary budget has become a yearly feature with the Government. In the course of execution, very often, excesses and deficiencies take place under some of the heads within a grant and transfers from one head to another are sanctioned by the department in consultation with the Ministry of Finance, where necessary. The departmental authorities are empowered to transfer funds from one minor head or sub-head to another. Those departments, which do not require the full amount of a grant, surrender it to the Finance Ministry to be utilised elsewhere.

The overall responsibility and control of the budget rests with the Ministry of Finance. Till a few years back, it was alleged that there was an excessive concentration of financial authority in the Finance Ministry and there was no delegation of this authority even to the high ranking and responsible officers of other administrative Ministries. Shri Asoka Chanda, the former Comptroller and Auditor-General of India cites an example of this ridiculous character of control exercised by the Finance Ministry. He states that, "till very recently the heads of India's Foreign Missions had no authority to incur any expenditure on their embassies. This gave rise to ridiculous situations, one of which is worth recounting. The leg of the banquet table in an embassy had given way, but the ambassador had to

seek the sanction of the External Affairs and Finance Ministries before he could get table repaired and resume his obligatory official entertainments".[11]

This type of tight financial control results in inefficient budget execution, especially when the nation has undertaken huge national projects. Shri Chanda observes, "The present conception of control extends also to the examination of technical details, though the Finance Department is not properly equipped for this purpose. As a result, the objections raised are often elementary and uninformed in character. This not only acts as an irritant, but is also time-consuming. Ultimately these objections mostly come to be waived, but often only after interminable discussions, and control becomes effective only over establishment proposals, the expenditure on which forms but an insignificant fraction of the total cost. The Finance Ministry, therefore, whilst straining at the gnat has often to swallow the camel".[12] Mr. A. D. Gorwala suggests therefore, "What is really needed in financial matters is control and not interference in small matters leading to a great deal of waste of time and energy and frustration on the part of the administrative departments, that is the greater part of the Government. This must be avoided".

The Estimates Committee in its 9th Report concerning Administrative, Financial and other reforms stated that there should be co-ordination between the Finance Ministry and the administrative Ministries. The Committee recommended more delegation of financial authority to the administrative Ministries. The Committee observed, "that concrete steps should be taken to achieve the end in view and to establish perfect cordiality between the administrative Ministries and the Ministry of Finance and to see that one is complementary to the other and helps in the ultimate objective". The Committee made the following recommendations :

(*i*) Before a scheme is embarked upon, it should be properly planned and it should also be ascertained whether the money required for it is available or can be made available

[11] Asoka Chanda, *Indian Administration*, pp. 222-223
[12] *Ibid.*, p. 223

at the proper time. Detailed plans and estimates should be worked out fully so as to enable the Ministry of Finance to approve the scheme and accord financial concurrence.

(*ii*) After the scheme is concurred in from the financial point of view by the Ministry of Finance, the detailed execution of the scheme and spending the money thereon should be the responsibility of the administrative Ministry, which should also be given power to vary or to alter the amounts under the sub-heads of the scheme so long as the total outlay is not affected.

It was in the interest of administrative efficiency and efficient budget execution that the administrative Ministries should be given more financial powers, and the Finance Ministry should exercise only overall and not detailed control.

The observations of various persons and authorities regarding the crying need for wider delegations led the Government of India to consider early in 1955 details of delegation to administrative Ministries and authorities. The powers delegated were embodied in a pamphlet issued by the Organisation and Methods Division of the Cabinet Secretariat in 1957 entitled, 'Financial and Cognate powers delegated to Ministries and Heads of Departments'. Though these delegations were helpful in speeding up the day-to-day administration of departments, yet they were not enough to lead to greater efficiency and speedier implementation of programmes. Another step forward in this regard was taken in August, 1958, and a reference to it was made by the President in his address to Parliament on 9th February, 1959 while opening the budget session. He said, "My Government have recently made certain important changes in regard to arrangement for budgeting and financial control over expenditure from the Civil estimates in order to secure a speedier implementation of our development plans, the administrative Ministries have been given wider financial powers to issue expenditure sanctions to schemes which have been included in the budget estimates after scrutiny by the Finance Ministry".

The revised arrangements for budgeting and financial control provides as follows :

Regarding Budget

(a) provision for standing charges and maintenance and repairs will continue to be made as at present. The administrative Ministries will send the estimates to the Finance Ministry for scrutiny and acceptance and inclusion in the budget estimates.

(b) Proposals will be made for expenditure on temporary establishment and connected items like travelling allowances, contingencies, etc. as at present on the basis of broad estimates of requirements and sent to the Finance Ministry.

(c) For specific schemes and projects which have already been examined in detail by the Finance Ministry and sanctioned, budget provision will be made on the basis of the estimated requirements of the administrative Ministries under the usual sub-heads.

(d) For new works projects, budget provision will not be considered except for schemes for which administrative approval has been accorded. In the case of large projects, the scope and the cost of which have been accepted as a whole, administrative approval may be accorded in stages for different portions of the project, if necessary. The budget provision in any particular year will, however, be based on the actual requirements of the year. Provision will be made under the usual sub-heads in the budget.

(e) For new schemes, other than purely 'Works' projects, provision will be made in the budget only on the basis of a broad picture of requirements in suitable details furnished by the administrative Ministries and accepted by Finance.

(f) No lump provision will be made in the budget except for minor work and for petty temporary establishments. Where a new scheme is planned to be taken up in the budget year which has been accepted in principle and for which details necessary for budget provision under (d) or (e) above are not available, budget provision will be limited to the requirements for preliminary expenses and for such initial outlay as for example, on collection of material, recruitment of skeleton staff, etc.

(g) To enable the Finance Ministry to make provision in the budget in accordance with (b) to (f) above and avoid rush of work in the budget season, the administrative Ministries should regulate throughout the year the consideration of schemes for

which budget provision in the next financial year would be required and put up their proposals to the Finance Ministry as and when they are finalised by them.

Regarding delegation of powers, the executive orders of August, 1958 have been followed up by the promulgation in December, 1958 of the 'Delegation of Powers Rules, 1958'. Subject to some general limitations, wide powers have been given to administrative Ministries, Administrators and Heads of Departments. Their powers to create permanent and temporary posts and to incur contingent and miscellaneous expenditure have been considerably enhanced. Full powers have been granted for appropriations and re-appropriations subject to expenditure being within the scope of the grant with certain restrictions for prior consultation with Finance. Departments of Central Government are empowered to sanction expenditure on any scheme, the total outlay on which does not exceed Rs. 50 lakhs. Departments have full powers to sanction loans and grants-in-aid in accordance with rules prescribed in consultation with Finance and general control of Finance regarding rates of interest and period of repayment of loans. Departments can enter into contracts or make purchases if the value does not exceed Rs. 25 lakhs or there are special features as negotiation or single tender upto Rs. 10 lakhs or for proprietary articles up to Rs. 5 lakhs and so on. Powers of writing off losses have not been enhanced to the same extent as other powers as such powers do not directly affect the main object of speedier implementation of development plans and, in the interests of efficiency, it may be necessary for Finance to pay closer attention to them.

As part of the scheme of delegation of additional powers to Ministries, officers of appropriate status are posted to each Ministry with such supporting officers and staff as may be necessary to give financial advice to the Ministry. These officers are designated as Financial Adviser, Deputy Financial Adviser or Assistant Financial Adviser as the case may be and have appropriate ex-officio secretariat status in that Ministry. These officers and their staff form the Financial Branch of the Administrative Ministry concerned and are employed solely on financial, budgetary and connected work. They are associated with the formulation of proposals for inclusion in the budget from their

inception and are consulted in all financial matters involving the exercise of the enhanced powers now delegated or matters requiring reference to the Ministry of Finance. They also assist the Ministry in the control of expenditure against appropriation. It is open to the Ministries to consult the financial adviser even in the field in which at present they exercise full delegated powers, but only those financial sanctions, which are issued by Ministries in exercise of the additional powers now delegated, have to be endorsed to audit over the signature of any officer of the Financial Branch specified above. Sanctions issued by Ministries under the powers previously exercised by them continue to be endorsed direct.

All cases in which the advice tendered by the Financial Adviser of the Ministry is not accepted have to be referred to the Secretary of the Ministry for orders, and, if the Secretary also differs from the advice, the case has to be brought to the notice of the Minister. A monthly statement of the cases, if any, where the Financial Adviser's views have not been accepted, giving a summary of the differences and the final decision, is forwarded by the Secretary of the Ministry to the Finance Ministry, Department of Expenditure for information and a copy duly endorsed, to the Comptroller and Auditor-General of India simultaneously.

The system of Internal Financial Adviser under the control of Administrative Secretary in Civil Departments is a recent development, and is modelled on the system obtaining in the U.K. It recognises the need for the departmental secretary to have individual responsibility for the efficient and economic administration of his charge and, at the same time, to discharge that responsibility. He would have informed, constructive criticism flowing from within his Ministry from persons who are familiar, with the financial principles. Now there cannot be any difficulty on the administrative side of the operating Ministry which arise in the formulation and execution of schemes. Until such time as accounting responsibilities are decentralised and come to be vested in the administration, which involves intricate and complicated problems, the Internal Financial Adviser is expected to devise such technique as is best suited to enable him to watch the progress of expenditure. He should

assist in the formulation of valid and defensible budget estimates, in projecting forward expenditures, in keeping expenditure within the limits of appropriation and give guidance in keeping expenditure up to the level to reach plan objectives.

These steps have improved a lot in the efficient execution of the budget. These were necessary in the context of development projects undertaken by the Government costing millions of rupees. But still there is much room for improvement in the working of financial advisers accredited to Ministries. The Public Accounts Committee in its report on the finance accounts of the Central Government (1961-62), pointed out that, "large savings continued to occur despite the delegation some years ago of financial powers to administrative ministries. The committee recommended that the Finance Ministry examine the feasibility of making more effective the financial control exercised through the financial advisers attached to the various ministries. The committee also stressed the need for curbing the tendency of administrative ministries to overlook avoidable expenditure in the delegated set-up".

Let us turn to the execution of the revenue side of the budget. This includes :

(a) Proper collection of funds,
(b) Proper custody of the collected funds,
(c) Proper distribution of funds.

(a) *Collection of Funds.* The Executive proposes taxes and Legislature approves those proposals. It is the responsibility of the Executive to create a suitable machinery and rules of procedure for the administration of taxes. In our country, the Department of Revenue of the Ministry of Finance exercises overall control and supervision over the machinery engaged in the collection of direct and indirect taxes. The control is exercised through the Central Boards of Revenue. Formerly there was only one Board. The additional Secretary of the Ministry of Finance used to be the ex-officio Chairman of the C.B.R. and members of the Board had ex-officio status in the Ministry as Joint Secretaries and functioned in dual capacity. On the recommendations of the Direct Taxes Administration Inquiry

Committee headed by Shri Mahavir Tyagi and the Central Excise Reorganisation Committee headed by Shri Ashoka Chanda, the Government of India has set up two Central Boards of Revenue, one Central Board of Direct Taxes and the other Central Board of Excise and Customs. It was thought necessary to implement the recommendations of these two Committees owing to very considerable expansion of the Union revenue administration. Substantial strengthening of the Board of Revenue at the Centre as well as its bifurcation was a matter of urgent necessity. These Boards will each consist of five members including Chairman/Vice-Chairman. The Members of these new Boards will be as usual from the officials of the Finance Ministry. The main function of Central Boards of Revenue is with regard to collection of revenue. The Boards exercise supervision and control over the various administrative and subordinate authorities which exercise powers vested in them under the different taxation laws. They issue orders, instructions and directions of a general or broad nature to the various subordinate authorities with a view to secure uniformity in departmental practice and procedure in the administration of the different revenue laws.

(*b*) & (*c*) *Custody and Disbursement of Funds.* There is a district treasury in each district of the country, which is the unit of the fiscal system of the country. Each treasury has under it one or more sub-treasuries. Receipts and disbursements of money take place daily in treasuries and sub-treasuries on behalf of the Union and the State Governments. The treasuries send accounts with supporting vouchers to the Accountant-General.

NATIONAL ACCOUNTING

An effective system of government accounting is basic to the administrative structure of a government. It is essential for efficient administration of national finances. Government accounting, "is the light by which the path of public administration is illuminated. The only hope that we can have for an interest in the administration of public affairs by the body politics is to keep that light burning brightly. The keeper of the light must never sleep, for, notwithstanding the fact that the public seems at times totally indifferent to the administration of its affairs, it

nevertheless is true that an informed person will ask question. He will want to know the reason why, Accounting tells the reason why".[13]

According to R. Merrill Mikesell, "Government Accounting encompasses all parts of the processes of recording, collecting and disbursing of government resources and making of reports concerning any or all of these operations or about their results".[14] A proper system of government accounting should record every receipt and expenditure of the government. The volume of government transactions is so large that, in the absence of proper accounting system, the morale of the public services may be undermined and thus impair the confidence of the public in the government. Accounting in the government has following main purposes to serve :[15]

(*i*) accountability, i.e. to give account of stewardship to those entitled to receive it;

(*ii*) to aid the formulation and execution of policy;

(*iii*) to enable the relative economy of operation to be assessed;

(*iv*) to provide financial information for a wider range of uses including, notably, the compilation and interpretation of national financial statistics.

Government accounting is a part of the broad area of fiscal administration. It helps in implementing governmental programmes and in achieving the social and economic objectives of government policy. The following are the chief objectives which must be fulfilled by government accounting system :

(*i*) Accounting system should be so designed as to show compliance with legal provisions.

(*ii*) Accounts which show the commitment and disbursement of moneys must be related to budget accounts which embody requests for expenditure. It means that budgeting

[13] By an American Author, Quoted by P. C. Dasgupta, *Indian Government system of Accounts and Audit*

[14] Government Accounting

[15] Mr. Norman Doodson, 'Research Paper', reprinted in *Chartered Accountant* Aug., 1963

and accounting must be components of an integral system of fiscal control.

(*iii*) Accounts must set forth in such a way as to permit a determination of the adequacy of custodianship of moneys and assets under the responsibility of administrative officials.

(*iv*) Accounts must be maintained on a basis which will permit an independent audit extending to all records, funds securities and property.

(*v*) The accounting system should provide a full disclosure of financial results, including the measurement of revenue and the cost of activities, programmes and organisations.

(*vi*) The accounting system must provide management at all levels with information for planning and direction. This includes, but is not restricted to, cost management.

(*vii*) The accounting system should incorporate effective procedures for internal audit and control of operations and programmes.

(*viii*) Government accounts must be maintained in such a way as to provide information necessary for the economic analysis and planning of governmental activity. This information should be presented in a form which is useful for both execution and legislative purposes.[16]

Government Accounts, "must facilitate the process of formulating and adopting the budget. They must be useful tools for programme planning and administration and control and must simultaneously reveal the information necessary for formulation and appraisal of the government's economic programme".[17]

In other words, Government accounting should serve 'Accountability' and 'Management' functions. Accountability means 'legal liability' — a system of control over receipts and expenditures. It ensures that public moneys have been used for public purposes. Management considerations require that accounts be kept on a basis that permits the continued measurement and analysis of government programmes and the efficiency with which they are performed. All modern governments have

[16] U. N., *Government Budgeting and Budget Execution*, p. 4
[17] U.N. Budgetary structure and classification of Govt. Accounts, p. 31

developed institutional arrangements to ensure accountability for receipts and expenditures of public funds.

Now the idea is gaining ground that government accounting must serve the needs of the administration as well as the needs of the legislature for accountability. Government accounting is now regarded as a tool of management. For this, government accounting must fulfil the following requirements :

(*i*) Government accounts must be as set forth in the budget, which is presented to and adopted by the legislature.

(*ii*) Responsibility for maintaining government accounts should be decentralised.

(*iii*) The accounting system should embrace a system of internal audit and control.

(*iv*) The accounts should be so maintained as to reveal the cost of governmental programmes.

(*v*) There should be flexibility in the system.

GOVERNMENT ACCOUNTING IN INDIA

The responsibility for the maintenance of proper accounts of the Government of India lies on the shoulders of the Comptroller and Auditor-General of India. The Auditor-General has the following duties and powers as regards the maintenance of the accounts of the Government of India.

(*i*) The Auditor-General shall compile the Finance and Revenue Accounts of India in such form as may be prescribed by the President and shall send them to the President. He may call upon any Government Officer to furnish any information in such form as may be required for the compilation of these accounts.

(*ii*) The Auditor-General shall have power to prescribe the form in which accounts shall be kept in audit offices; provided that no change, which will affect the form of the Finance and Revenue Accounts, shall be made without previous sanction of the President.

(*iii*) If a doubt or a dispute arises as to a major head under which particular minor head, or as to the minor head under

which a particular detailed head should be included, it shall be decided by the Auditor-General.

(*iv*) The Auditor-General shall prepare in each year a review of the balances of the books maintained by the Audit Department and shall send it to the President.

(*v*) The Auditor-General shall have power to determine the form in which officers rendering accounts to the Indian Audit Department shall render such accounts, and in which the initial accounts, from which the accounts so rendered are compiled, or on which they are based, shall be maintained.

(*vi*) The Auditor-General shall supply or shall arrange that officers subordinate to him supply, any information required by the President or by a local Government, which can be derived from the accounts maintained in the offices under his control.

(*vii*) The Auditor-General shall arrange that such assistance as may be required, shall be rendered by the officials of the Indian Audit Department to the President, the local Government and authorities in the preparation of their annual budget estimates.

Government accounts are kept on single entry system. Treasury is the unit where receipts and payments arise. The initial accounts are kept by the treasuries. The treasuries submit their monthly cash accounts and fortnightly lists of payments to their respective Accountant-General's office together with concerning vouchers. Separate schedules are prepared for items falling under Debt, Deposits, Remittances and Receipts and Payments for service. Departmental Offices such as P.W.D. and Forest offices generally draw from treasuries in lump sums and, at the end of each month, render a classified account to the concerned Accountant-General. The accounts received from treasuries and departmental officers are analysed, marshalled and grouped and finally accounted for in a ledger called 'Abstract of Major Heads Totals' through a variety of subsidiary registers such as Classified Abstract, consolidated Abstract, Details Book, etc. It may be mentioned here, that the treasuries in India are working under dual control. This is due to the historical reasons. Though they are staffed by the State Government concerned, but have to function strictly in accordance with the instructions given by the Accountant-General of the State. Though all accounts

vouchers and returns, etc. are submitted to the Accountant-General, but they are under the administrative control of the Government and not of the Accountant-General. As the treasury staff is not under the administrative control of the A. G., the employees are not always prompt and meticulous in complying with the directions of the A. G. Moreover, staff is not well trained in accounts. Large number of defects are found in the accounts which are remedied by correspondence between treasury and the A. G. This causes delay in finalising the accounts. Hence it is necessary that so long, accounts and audit works are not separated, treasuries should be taken over by the A. G. They should be staffed by qualified and trained persons. It is also necessary to strengthen the base of present accounting organization of the treasuries. This will ensure efficient working.

From the records of the Accountant-General the Comptroller and Auditor-General compiles two types of accounts. The Finance Accounts, bringing together all the receipts and expenditure and the appropriation accounts, showing the actual expenditure against the grant voted by Parliament. He also prepares a general financial statement which shows, apart from the receipts and disbursements, the outstanding liability and assets of the Government. This work is done at the headquarter's office. The accounts prepared by the Comptroller and Auditor-General are submitted to the President who lays them before the Parliament.

According to the principles of Government accounting, the executive should shoulder the responsibility of maintaining the accounts, and the function of audit should be performed by an independent authority. But, in India, both the functions are performed by one single authority. The present arrangements under which spending authorities are not responsible for the maintenance of complete and up-to-date accounts relating to the transactions to which they are responsible, have been a subject of criticism in certain quarters. It is felt that accounting and auditing are separate functions and they should be performed by different authorities. But the C. & Ar. Gl. performs both the functions. This position still continues despite the fact that Parliament and Public Accounts Committee have repeatedly pointed out the desirability of transferring the accounting and

payment functions to the administrative departments. Through the concerted efforts of the C. & Ar. Gl. and the Government to bring about this obvious reform, some headway has been made recently. The Public Accounts Committee (1962-63) under the Chairmanship of Sri Mahavir Tyagi actively engaged itself in bringing about separation of Accounts from Audit. But the scheme of separation of Accounts from audit showed no marked progress on the ground of deficiency of trained manpower and extra cost involved.

Sometimes arguments, mostly based on principle, are put forward for separation of accounts from audit, but in the present circumstances this step is not feasible because :

(*i*) Accounting and audit functions are inter-related. The pre-check of claims before admission for payment, the examination of contract documents, etc. with reference to financial principles and practices undertaken in accounting are essentially audit processes. Therefore, there is nothing inherently wrong in combining the two functions.

(*ii*) An Audit, independent of Administration, is necessary to ensure that the internal accounting organisation has not slurred over its responsibility and has not been coerced by administration into admitting questionable claims and overlooking irregular practices. Where the accounting organisation itself is outside the control of the administration there does not appear to be any objection in the combination of the two functions.

(*iii*) Under the rules in force at present, certain responsibilities in the field of accounts have been imposed on the Comptroller and Auditor-General. Therefore, arrangements will have to be made for the consolidation of departmental accounts and the compilation of finance accounts of the Central and State Governments as a whole. This co-ordinating role will imply that uniformity in accounting principles and processes in the units, dispersed in the various Ministries, has to be maintained. In this connection, the reorganisation of the States on linguistic basis where official business is transacted in the language of the States, has raised yet another obstacle in the way of uniform accounting procedure.

(*iv*) As the Constitution provides for a single C. & Ar. Gl. the implication of disintegration of a specialised department which has been built up over a period of a century with traditions of integrity and efficiency have to be studied carefully.

AUDIT

The Audit of Government transactions is one of the most important instruments of parliamentary control over the finances of the country. Auditing is regarded as, "a systematic examination of the books and records of a business or other organisation in order to ascertain or verify, and to report upon, the facts regarding its financial operations and the results thereof".[18] Auditing of Government transactions is necessary owing to the following reasons :

(*i*) In the administration of public finance, the technical accounting procedure employed by Government has to receive special attention. In view of the growing complexity, weight and variety of expenditure, more stress has to be laid on the accuracy of accounting and of estimating. Therefore, the examination of accounts, showing the appropriation of sums granted by Parliament to meet public expenditure and of such other accounts, assumes a very great importance so as to make the authority of the Parliament over expenditure effective. There may be cases of unwise or extravagant expenditure. An independent audit authority is needed who has not only to check the accuracy of accounts but has to pay greater attention to detect waste and inefficiency.

(*ii*) In a democratic country, the Government is run on party basis, and the party in power may change from time to time. Each party has its own ideals about spending public money and this change of policy affects the budget and, therefore, accounts. From the tax-payer's point of view, the need for a thorough check-up of accounts by an independent audit authority is thus most essential.

(*iii*) The officers who are put in charge of the executive departments are changed frequently. This factor demands careful vigilance by an independent authority.

[18] An Introduction of the Government Accounts and Audit, p. 531

(*iv*) The Government is responsible to the citizen-public as a whole. The public are lay citizens and hence an independent audit authority, to act as a watch-dog on their behalf, is obligatory.

Thus, there is need for an independent audit authority to audit the Government transactions on behalf of the Parliament the citizen's representative body. In India there is provision in the Constitution for an independent Comptroller and Auditor-General, who shall conduct the audit of all the public moneys spent out of the Consolidation Fund of India. His status has been kept independent of the executive control. It is necessary as he has to report to Parliament on the financial working of the Executive. As regards the position of C. & Ar. Gl., Mr. Chubb observes, "The position of Auditor-General is unique in many respects. Although he is civil servant by training and though he works with the civil service and his subordinates are civil servants, yet he is not one of them. His constitutional status, and duties isolate him and he is in the words of Sir Frank Tribe himself, 'very much a lone wolf'. Unlike any civil servant he has no chief. He has statutory duties and large discretionary powers and though it is his job to aid the House, the responsibility for his actions is his alone".[19] The President makes the appointment to the office of the C. & Ar. Gl. on the advice of the Prime Minister. The incumbent of the post is usually one who has held high appointments in the Central Government. A wide knowledge and experience of the administration of the Government departments are considered indispensable to this office. Article 148 of the Constitution lays down the provision of his appointment, which reads as follows :

(*i*) There shall be a Comptroller and Auditor-General who shall be appointed by the President by warrant under his hand and seal and shall only be removed from office in like manner and on the like grounds as a Judge of the Supreme Court.

(*ii*) Every person appointed to be the Comptroller and Auditor-General of India shall, before he enters upon his

[19] Control of Public Expenditure, p. 172

office, take and subscribe before the President or some person appointed in that behalf by him, an oath or affirmation according to the form set out for the purpose in the Third Schedule.

(*iii*) The salary and other conditions of service of the Comptroller and Auditor-General shall be such as may be determined by Parliament by law and, until they are so determined, shall be as specified in the Second Schedule.

Provided that neither the salary of a Comptroller and Auditor-General nor his rights in respect of leave or absence, pension or age of retirement shall be varied to his disadvantage after his appointment.

(*iv*) The Comptroller and Auditor-General shall not be eligible for further office either under the Government of India or under the Government of any State after he has ceased to hold his office.

(*v*) Subject to, the provisions of this Constitution and of any law made by Parliament, the conditions of service of persons serving in the Indian Audit and Accounts Department and the administrative powers of the Comptroller and Auditor-General shall be such as may be prescribed by rules made by the President after consultation with the Comptroller and Auditor-General.

(*vi*) The administrative expenses of the office of the Comptroller and Auditor-General, including all salaries, allowances, and pensions payable to or in respect of persons serving in that office shall be charged upon the Consolidated Fund of India.

As said earlier, the C. & Ar. Gl. has to perform accounting as well as auditing functions in respect of Governmental transactions. Under the Constitution, his status has been kept independent of the executive. But, in spite of the Constitutional provisions placing the Comptroller and Auditor-General in an entirely independent position, a certain subordination on his part to the Government in so far as accounting and payment functions are concerned is implied, though under a well-regulated convention which Government fully and scrupulously observe, Government seldom interferes in the discretion of the C. & Ar. Gl. in his day-to-day administration. Besides this, with regard

to staff, etc. the C. & Ar. Gl. is at the mercy of the Government as Mr. Roy stated, in the speech delivered under the auspices of the Commonwealth Parliamentary Association, Gujarat Branch on 11th October, 1961, "The Comptroller and Auditor-General of India does not have a free hand in the matter either of the number of staff he should have, the category of staff he should have or the pays that he should have for them. These matters are subject to Government sanction. After all, one cannot provide everything in law and I must say that so far in actual practice there has been no difficulty at all".

The combination of audit function with the accounts and payment functions is likely to bring — and it frequently does bring — the C. & Ar. Gl. — under the indirect control of the Ministry of Finance, for the Minister is very often called upon to answer questions in Parliament on matters which are handled by the C. & Ar. Gl. on his behalf. The Speaker ruled that so long as the C. & Ar. Gl. was responsible for maintaining accounts in addition to conducting audit, the admissibility of questions relating to the former must be regulated as in the case of any other Ministry. In regard to audit functions of the C. & Ar. Gl., questions relating to day-to-day administration, are not normally admitted, but questions involving supply of factual data or statistics or matters which have a bearing on policy may be admitted. Normally such questions are admitted for written answers only so that the need for raising supplementaries may be avoided. The Minister of Finance who is responsible for answering such questions in the House, in practice gets the material for answer from the C. & Ar. Gl., and places it before the House and may answer supplementaries from such additional material as the C. & Ar. Gl. may have furnished him. In case the Minister has no information, he informs the House that he will request the C. & Ar. Gl. to look into the matter. This position shall continue till accounting and audit functions are not separated.

The Comptroller and Auditor-General of India by convention has power to look into all documents and records relating to any financial transaction of the Government while discharging his constitutional functions. There has been no difficulty in getting access to all such documents which the C. & Ar. Gl.

wishes to see because "a healthy convention has been built up in our country for making available to the Comptroller and Auditor-General all documents and records relating to any financial transaction of the Government. This enables him to properly discharge his constitutional functions. Effective and useful audit may not always be possible by a mere examination of the accounts and subsidiary documents such as vouchers submitted to audit. It is only as a result of all relevant documents leading to a particular transaction including the sanction that it is possible to arrive at a final audit view in the matter".[20] What documents are relevant in the course of audit, depends upon discretion of the Auditor-General as, "He alone is competent to say what information is necessary for the discharge of his statutory functions, and if required for audit purposes it cannot be withheld . . . . He is bound to afford to Parliament the fullest and best information in his power with regard to expenditure; but Parliament would not require to be furnished with information which it would not be in the public interests to make public. In the exercise of this, as in that of many other of his functions, the decision must be left to his discretion".[21] In the U.S.A. the Budget and Accounting Act specifically provides for the production of all records required by the Comptroller-General for the purpose of audit. In U.K. in 1917 the Comptroller and Auditor-General complained about non-production of certain records and then the Treasury agreed with the P.A.C. that all the documents necessary to enable the Comptroller and Auditor-General to perform his duty would be made available. But in India we do not have a law defining the functions and powers of C. & Ar. Gl. He is functioning under an order issued in 1936 by the then British Government. The Finance Minister in a statement in June 1962 given in Lok Sabha stated that the Bill defining the functions, powers and duties of the Comptroller and Auditor-General of India is under consideration of the Government. The Public Accounts Committee 1962-63 in its fourth report also drew the attention to this fact. The Committee stated, "The Committee understand that Government

[20] Report of the Public Accounts Committee, 4th Report 3rd 'Lok Sabha'

[21] Durell, *The principles and Practice of the system of control over Parliamentary Grants*

has been examining a proposal to introduce legislation defining the duties and powers of the Comptroller and Auditor-General as required under Article 149. They would urge upon them to expedite the same". The issue of enacting such a legislation required under the Constitution has already become overdue, and it is expected that the Government will take early steps to pass such an Act.

The Comptroller and Auditor-General of India has two important functions to perform : (*a*) As Comptroller it is his duty to see that no money is drawn out of the Consolidated Fund of India without statutory authority, and (*b*) as Auditor-General of public accounts, it is his duty to see that public revenue is spent in accordance with grants passed by Parliament. His duties with regard to audit are the following :

(*i*) He audits all expenditure in order to ascertain that the money spent was legally available for the services or purposes to which they have been applied and there is a proper sanction for the same.

(*ii*) He audits all transactions of the Union and States relating to Debt, Deposit, Sinking Funds, Advances, Suspense accounts, etc.

(*iii*) He audits all trading, manufacturing, profit and loss accounts and Balance Sheets kept by any Government department of the Union or of a State.

(*iv*) If required by the Government of the Union or of a State, he audits the receipts of any department of the Government.

(*v*) If required by the Government of the Union or of a State, he audits the accounts of stores and stocks kept by any department of Government.

(*vi*) He can undertake any additional duties, for example, audit of Local Bodies, if required to do so by the Government, at his discretion and on agreed terms.

The C. & Ar. Gl. discharges his functions through :

(*a*) Accountant-General, one in every state, who compiles and audits the accounts of the State.

(*b*) Accountant-General, Central Revenues, Accountant-General Post & Telegraph who compiles and audits the account of the Union.

(*c*) Eight Chief Auditors who audit the expenditure of the various railways.

(*d*) One Director of Audit for Defence Service expenditure.

(*e*) One Chief Auditor, Food Rehabilitation and Supply.

(*f*) One Director of Commercial Audit who audits the accounts of the Commercial undertakings of Government.

(*g*) One Auditor of Indian Accounts in London and one at Washington for audit of expenditure incurred in those countries.

METHODS OF GOVERNMENT AUDIT

The following methods are adopted in government audit :

(*A*) *Audit against Financial Propriety* :

This is called 'Higher Audit' and it requires much tact and discretion. The underlying principle in such audit is that 'every Government servant must exercise the same vigilance in respect of expenditure incurred from public moneys as a person of ordinary prudence would exercise in respect of expenditure of his own money'. In this field, an auditor goes beyond the vouchers and extends his scrutiny beyond the formality of the expenditure, to test its wisdom, faithfulness and economy. For the general control over public, finance, scrutiny of economy is essential. In this connection, it is taken into consideration that :

(*i*) No authority should exercise its power of sanctioning expenditure which would be directly or indirectly to his own advantage, and (*ii*) No public moneys are to be spent for the benefit of a particular person or section of the community unless the expenditure involved is insignificant or the claim could be enforced in a court of law or it is in pursuance of policy or custom.

(*B*) *Audit of Sanctions* :

This is a special feature of Government audit. An audit

officer is entitled to receive a copy of an order sanctioning expenditure. In auditing these sanctions, the audit has to consider the competency of the authority in relation to the provision of the Constitution of the Laws, rules or orders made thereunder or by the rules of delegation made by a competent authority.

(*C*) *Audit against Provision of Funds* :

This audit is conducted through the (I) Appropriation Accounts, and (II) the Finance Accounts.

I. Appropriation Account. There are two principal objectives in Appropriation Audit :

(*a*) Defective Budgeting : This is in the nature of a general review drawing conclusions regarding control over expenditure such as,

(*i*) Excess over-voted grants and charged appropriations not covered by supplementary grants and appropriations;

(*ii*) Supplementary grants obtained during the course of the year having proved to be eventually unnecessary;

(*iii*) sums surrendered from the grants resulting in savings or excesses or unnecessary re-appropriation. Comments are offered with a view to bring home to the administration that there was yet room for improvement both in budgeting as well as in control over expenditure.

(*b*) The money granted by Parliament has been spent by the Government within the scope of the demand. It has to be seen that :

(*i*) The money recorded as spent against the grant must not be larger than the amount granted, and the authority making allotments under a grant of appropriation does not allot amount in excess of those available under the grant.

(*ii*) The expenditure brought to account against a particular grant is of such a character as to warrant its record against that grant and no other.

(*iii*) The money has been spent on purposes which are set out in the Detailed Demand, The Audit has to see that no expenditure, not falling within the scope or intention of a grant, has been authorised. The distribution of the

amounts granted between the various sub-heads and items may be taken as general evidence of the purposes for which the grant or appropriation was made.

(*iv*) No money has been spent on any new service not contemplated in the demand.

(*II*) *Audit of Finance Accounts.* The audit report on the appropriation deals with only that part of expenditure which comes from the Parliament in the form of demands for grants. The audit report on Finance Accounts, however, brings out the salient features of current revenues and expenditure, the financial results of important public works, the debt position showing how much of the debt is productive and how much is unproductive and what arrangements have been made for the redemption, and whether such arrangements are adequate or not. The audit report also includes the Review of balances of Debt, Deposit and Remittance heads. The object of this review is, in the first place, to show a complete enumeration of the balances under all Debt, Deposit and Remittance heads, and, in the second place, to examine and set out the current state of accounts under each head. In short, the Audit Report conveys a just and impartial picture of the financial position of the Government as deduced from the accounts of the Government.

(*D*) *Audit against Financial Rules and Regulations* :
Under this audit, it is seen that the expenditure conforms to the relevant provisions of the Constitution and to the laws and rules made thereunder. These are :

(a) Rules and orders regulating the powers to sanction and incur expenditure from the Consolidated Fund.

(b) Rules and Orders dealing with the mode of presentation of claims against Government.

(c) Rules and orders prescribing the procedure for withdrawal of money from the Consolidated Fund, Contingency Fund and Public Account.

(d) Rules and Orders regulating the pay, and allowances, pensions and other conditions of service.

Though there is an elaborate system of audit of Government expenditure, yet the audit of the revenue side is neglected. Thus,

it is a half way audit. In the U.K., the Comptroller and Auditor-General audits the accounts of receipts of revenue and of every receipt of money which by law is payable into the exchequer. In India, however, the case is different. The Auditor-General, on the request of the Government can undertake audit of some head or heads of revenue. Several important categories of revenue are still not audited by the C. & Ar. Gl. At present, except in regards to customs and income-tax, no test audit of revenue is being conducted by the C. & Ar. Gl. In one of the recent reports, he has suggested that it would be desirable to conduct such checking of other revenue heads. In this connection it is useful to bear in mind the following quotation from the review of the working of the Exchequer and Audit Departments Act of 1866 prepared by the C. & Ar. Gl. in the U.K. in 1916. "The knowledge that the Comptroller and Auditor-General was cognizant of the manner in which the dispensing power was exercised and might report to the Public Accounts Committee any case in which he considered that the particular exercise of the power ought to be brought to the knowledge of the Committee or of Parliament would of itself act as a check against any undue inclusion owing to leniency on the part of the different revenue departments." Thus it is necessary in India too, to devise an elaborate system of audit of the revenues and receipts of the Government. During the period when Government are levying more and more taxes to meet the expenditure of development schemes, the need of revenue audit becomes all the more important. As the C. & Ar. Gl. brings to the notice of the Parliament every year a number of cases of irregularities and extravagance on the expenditure side of the Government, so also cases of irregularities and favouritism on the revenue side will also become known to Parliament. The Public Accounts Committee in a report laid on the table of the Lok Sabha on 21st February 1963, expressed alarm at the large number of cases of under-assessment involving a huge amount detected in the test audit by the Comptroller and Auditor-General. According to the report the test audit revealed 1621 cases of under assessment involving loss of revenue to the extent of Rs. 120.77 lakhs. The number of cases in which defects and discrepancies were found is about 16 per cent of the cases audited, the actual number

being 13,357. The report also pointed out the arrears of income-tax amounting to Rs. 253.49 crores at the end of 1960-61, of this Rs. 136.74 crores was effective arrears. Such a state of affairs was revealed by the test audit done by the Comptroller and Auditor-General. Thus there is an urgent need of introducing complete audit of revenues of the Government. This will bring the whole public funds under effective audit control. No audit is complete unless there is check on both the sides, i.e. revenue as well as expenditure.

There is also need of extending audit to loans and grants-in-aid given by the Government for social, developmental or industrial purposes. This will prevent misuse of funds, which has become so very common nowadays. The P.A.C. in its report presented in the Lok Sabha on 18th March, 1964 desired that the Finance Ministry should take vigorous steps to bring under the scrutiny of the Comptroller and Auditor-General the grants-in-aid given by the Government.

Paul H. Appleby, a Public Administration expert, in his two reports on Indian Administration has attacked the Audit work in India. He observes that the function of the C. & Ar. Gl. is in a large measure an inheritance from colonial rule. The C. & Ar. Gl. is a primary cause of a wide-spread and paralysing unwillingness to decide and to act. Auditors do not know and cannot be expected to know very much about good administration. Their prestige is highest with those who do not know much about administration.

Auditing is necessary but a highly pedestrian function with a narrow perspective and very limited usefulness. Any Deputy Secretary knows vastly more about significant problems in his Ministry than the entire staff of the C. & Ar. Gl. can discover by auditing. Too many Comptroller's reports are mere substitutions of hindsight for the kind of judgement possible and necessary and proper at the time of action.[22]

He further observes, that auditing, wherever done, has hardly more than two purposes. One is to ensure propriety in the sense of precise adherence to established practices and secondly, to maintain standards in monetary transaction. Since the ad-

[22] Report on Indian Administrative System—Comments and Reactions, pp. 5-6

ministrator of an enterprise has more at stake than anybody else, auditing in each enterprise must be done, where the operations are large and diversified, in a fashion as to fit the nature of its operations. This means that for this purpose auditing should be done at the direction of the board of directors, according to principles and methods set forth from time to time by the Board. The second purpose of auditing is to provide an independent appraisal of the assets and liabilities of the organisation which can certify the overall financial status of the undertaking. Auditing can be done in ways to satisfy both the requirements in the case of individual and commercial enterprises operated by the Government, and by private auditing firms. The C. & Ar. Gl. is otherwise oriented and too independent and, therefore, too little enabled to adjust his approach to different kinds of operations to serve the first purpose. His special kind of competence is not a special competence in the second purpose. Hence a private auditing firm is the proper choice. Whether auditing is done by a private firm or by the C. & Ar. Gl., it should be clearly determined that auditors are not judges of either policy, administrative judgements, or the public interest.[23]

As regards functions of the C. & Ar. Gl., Mr. Appleby remarked that his function does produce important and valuable findings and some of these involve matters of detail. The trouble is that he transmits too much trivial detail, too much that is devoid of judgement about what is important and useful and appropriate to his function. Shorter, and more selective reports would justify more attention to them. The same thing holds for other types of administrative audit and review.[24]

Mr. Appleby's views regarding audit are not correct. He puts Government auditing at par with auditing of commercial concerns. He wants to put audit under the subordination of the executive. That will be dangerous to the interest of national finances. In a democracy, Government is of the people, by the people and for the people. The public has sovereignty and the executive is answerable to the public. The Public is represented by the Parliament. Hence there is need to control and check the activities of the Government. Parliament, therefore, through

[23] *Ibid.*, p. 11
[24] *Ibid.*, p. 13

the agency of the C. & Ar. Gl., checks the financial activities of the Government. Government money is a public trust and it is essential to check misuse of trust money. Audit is the only agency to safeguard and protect it. Audit should not be taken to be only a fault-finding agency, but it is to put the administration on the right path so as to serve public interest. "In all recognised democracies, audit is not just tolerated as a necessary evil, but is looked upon as a valued ally which brings to notice procedural and technical irregularities and lapses on the part of individuals, whether they be errors of judgement, negligence, or acts or intents of dishonesty. The complementary role of audit and administration are accepted as axiomatic, being essential for toning up the machinery of Government."[25]

Mr. Appleby has exaggerated the role of the administration *vis-a-vis* audit. The cases of misappropriation and waste of public funds, however late they may be brought to notice, make a strong case for a vigorous check on the spending methods of Government departments. The remedy lies not in removing checks altogether, but in making them less rigid and more sensible. His argument that auditing should be done at the direction of the board of directors and according to the principles and methods set forth from time to time by the board, is not correct. Auditor has to watch the interest of the public and not of executive. The Auditor-General is an independent authority under the Constitution with the duty to keep the Parliament posted through the Public Accounts Committee with data which would enable it to check extravagance. In Britain and America, the legislature devotes little attention to the audit report — much less than what, according to Mr. Appleby is accorded by the Indian Parliament. But that is because the spending departments and the new agencies controlling state-owned industries have long been schooled in the tradition of strict treasury control. In Britain, the Treasury does make the fullest use of the material provided by audit. Mr. Appleby does concede that much of the fault-finding by audit is due to the fact that budgeting is not done in a scientific and thorough way by the spending departments. He thinks that the Finance Ministry can play a much more effective role. But the need for the existing checks

[25] Asoka Chanda, *Indian Administration*, p. 251

on extravagance, done by both the Finance Ministry and Auditor-General will long remain.

In a democratic country audit is a must institution. There is need of giving more powers to the auditor and not of curtailing powers. The Comptroller and Auditor-General should have great freedom in drawing his reports to Parliament. He should be able to draw attention to any circumstance that comes to his knowledge in the course of audit and point out its financial bearing. His work should not be made very rigid but should be of a fact-finding nature. The Public Accounts Committee viewed that, "it is the function of the Comptroller and Auditor-General to satisfy himself not only that every expenditure has been incurred as per prescribed rules, regulations and laws, but also that it has been incurred with 'faithfulness, wisdom and economy'. If, in the course of his audit, the Comptroller and Auditor-General becomes aware of facts which appear to him to indicate an improper expenditure or waste of public money, it is his duty to call the attention of Parliament to them, through his Audit Reports. At the present time when there is heavy taxation and heavy expenditure, the Committee hopes that Comptroller and Auditor-General will pay even greater attention than in the past to this aspect of his duties and the Government will give him every facility to perform them".[26]

The demand for freedom from audit, specially when large sums are being spent on development projects, will be injurious to national interest. There will always be the lurking fear that, once the influence of the audit is allowed to wane, it will mean a green light to the officials and Ministers for financial imprudence and extravagance. Apart from the financial loss involved, the relegation of audit machinery to a subordinate role may conceivably lead to lowering of the standards of financial rectitude. It must be remembered that, when these standards are lowered, they cannot be easily raised again. "Sad experience has taught them that the only safeguard against public money going down the drains is greater control of the administration by Parliament, by the Finance Ministry and the Comptroller and Auditor-General of India. To scrap these checks and devices . . . is a proposition suited more to totalitarian regimes than to a

[26] '4th Report Third Lok Sabha', p. 55

democratic climate . . . . Neither Parliamentary nor public opinion will reconcile itself to making the spending Ministries independent of Treasury control or audit."[27] Audit becomes all the more necessary when we hear every day cases of misappropriation or corruption. Under such circumstances, the scope of audit is to be enlarged. These consideration point to the need not for lowering the prestige of audit but for re-orienting it. Shri Asoka Chanda observes, "The attitude of audit needs re-orientation. In the past, Audit and Administration have functioned in water-tight compartments. There has been little inclination to get together to understand each other's point of view or, what is more important, to clarify issues and take remedial measures. In this situation, Audit has felt impelled to incorporate in its reports many matters susceptible to satisfactory explanations and therefore of settlement. The impression has thus come to be created that purpose of audit is to 'show up' the administration, objections are raised, technical in character even in respect of schemes and projects which have been executed with competence and expedition".[28] It should be taken into account that an auditor is a watch-dog of the public interest and not a blood hound to create difficulties in the administration by holding its leg for not proceeding further. The Public Accounts Committee observes, "It is not the intention that audit should encroach upon purely administrative matters or range over the entire field of administration. But where administrative action has serious financial implications, it is the duty of audit to see that administrative action is not only in conformity with prescribed law, financial rules and procedure but it is also proper and does not result in any extravagance, loss or infructuous expenditure".[29] Hence it is necessary that misconception regarding audit should be given up. In fact, "The Comptroller and Auditor-General is not a 'snooper' nor he is a 'drain inspector', but in the course of his test audit, he does notice filth, it is his obvious duty to draw attention to it and leave it to the Parliament, whether and if so what action should be taken. It is important to remember that it is not the business of the Comptroller and Auditor-General to criticise, censure or step into the shoes of the Executive.

[27] *Pioneer*, Lucknow dated 17th August 1956
[28] *Indian Administration*, pp. 252-253
[29] Fourth Report, 'Third Lok Sabha', p. 51

All he has to do is to bring to the notice of the owners of a concern in this case, the Parliament, that there are certain matters which it may look into with advantage. While it is his duty to assist Parliament in understanding his report, the decision regarding the action to be taken is entirely that of Parliament and not his".[30] Thus audit is a *sine qua non* to democracy. Audit is an important aspect of financial administration the importance of which cannot be minimised.

BUDGETARY CONTROL

Budgetary control is an administrative measure adopted for efficient conduct of budgetary process. The vital element in budgetary control is to maintain throughout the fiscal year a balance between expenditure and income of the government. No government can properly supervise the expenditure without its relation to income and vice versa. The satisfactory handling of one side of the budget involves the other side. At no time can the two sides be divorced. There are two aspects of budgetary control :

(*a*) Current planning and definite allotment of authorised expenditure,
(*b*) careful scheduling of anticipated income.

The application of these devices in conducting the finances of the government should occupy a large part of the executive's attention from the time the budget is approved by the legislative body to the end of the fiscal period or until the financial plan is finally and completely realised. The legislative body merely authorises and fixes the maximum amounts which may be expended subject to executive's direction and supervision. Proper control of public expenditure and income is the responsibility of the executive.

CONTROL OF EXPENDITURE

There are three necessary features to the proper control over expenditure side of the budget.

[30] Speech delivered by A. K. Roy before Northern Indian Council of Chartered Accountants. Published in *Chartered Accountant,* issue of August, 1963

(*i*) the planning of the work to be done which involves the setting up of a work programme by each spending unit or agency,

(*ii*) the determination of the rate of outgo on the basis of the work programme that is the allocation of the expenditure requirements to the months or quarters of the budget year, and

(*iii*) the adjustment of discrepancies between the authorised and actual expenditures.

There are three agencies to control public expenditure, i.e. legislature, spending authority, and accounts officers.

The legislative body in making appropriations to the spending authorities usually sets them in an itemised form. Amounts to be spent are determined by various major heads, minor heads, and sub-heads. It sets the maximum limit to be spent under a particular head. While the legislative body has the power to provide the method of control, it is now generally considered to be unsatisfactory, particularly from the administrative point of view. Administration needs flexibility for making transfers. The only check on the expenditure of itemised appropriation is the performance of audit, by an independent authority. Since the audit is generally confined to viewing the expenditure claims merely from the standpoint of their legality, it is neither satisfactory nor adequate as a means of administrative control, even though it may be carefully done. Further, the independent accounting officer usually examines the financial transactions after they have been finalised. Only through pre-audit, budgetary control can be exercised. There is generally lack of planning and co-ordination in the expenditure requirements during the budget period. This is a major problem of financial administration. The systematic handling of the finances of the government is either overlooked or disregarded. For this it is suggested that :

(*a*) Regular surveys of public expenditure should be conducted;

(*b*) There should be the greatest practicable stability of decisions on public expenditure; and

(*c*) There is need of improvement in the tools for measuring

and controlling expenditure.

How then can effective budgetary control over expenditure be established? The way out is the adoption of work programme scheme under the supervision and direction of a central administrative authority.

Work Programme

The work programme is an administrative plan for carrying on the activities of the government during the budget period. It is prepared after the legislative body has taken action on the budget and has voted the appropriations. These programmes are distinct from the estimates which form the basis of the original budgetary proposals. The work programme is the administrative interpretation of legislative policy as expressed in the appropriation acts or in the general laws. By such programme, this policy is translated into actions and that is why it is called an administrative plan.

The work programme has two-fold advantages in budgeting. It makes possible real executive direction and supervision and it enables the administration to meet changing conditions which cannot be anticipated in advance. The work programme for the whole government is the composite of the working plans of the various governmental agencies. It sets forth at one place the entire activities of the government. It furnishes the executive with the information required for budgeting. The work programme is, of course, based upon the idea that appropriations are merely authorisation to spend, and the executive has full discretion in planning expenditure. Otherwise such a programme is not feasible as an instrument of administrative direction.

The work programme is prepared, like budget estimates, by the spending departments of the government. It is a plan of the year's work set up by the administrative head of each department with the assistance of his subordinate officers. The proper time for the preparation of work programme is immediately before the beginning of the budget year. Like the budget, the work programme should be comprehensive. It is advisable to set up Work Programme Committees department-wise. Good

administration means direction with foresight and demands a programme of work. When a programme has been prepared, it should be submitted to the chief executive officer of the government for his approval. This is necessary for keeping budgetary control. The chief executive officer, before approving the work programme of the department, should see that it not only embodies the departmental policy correctly interpreted but is also in harmony with the general policy of the government.

An essential feature of the work programme is the distribution of the proposed expenditures over the months or quarters of the budget year. This is necessary in order to determine the rate of expenditure so as to keep expenditure within appropriations and at the same time to the demands for money that will be made upon the treasury. Such distribution is known as apportionment of appropriation.

Control Over Income

Control over income side of the budget is directed towards one end, namely, to have cash in hand to pay all bills promptly. This is, without doubt, one of the essentials in budgetary execution. By giving special attention to this thing, the execution is enabled to marshall the resources of the government so as to use them to the best advantage in meeting the expenditure requirements of the budget. How can the executive know that there will be adequate cash to all bills as they arise during the fiscal year? Obviously it is necessary to employ some method of scheduling the revenues and receipts, which are anticipated during the fiscal year. A schedule of anticipated income may be made for the fiscal year by quarters or months. It should follow the same division as is followed in the preparation of work programme. It is important to consider the schedule of anticipated income along with the work programme of the government and the expenditure allotments. The allotments should not be finally approved at the beginning of the fiscal year until they have been compared with the schedule. Such comparison may show that it is advisable to rearrange the allotments so as to defer some expenditure until there is estimated cash available in the treasury to meet them.

CHAPTER VI

PARLIAMENTARY CONTROL OVER BUDGETING

"Look well to Finance.
The Treasury is the Key to all."

PARLIAMENT HAS important and valuable opportunities to criticise Government administration through debates, but it lacks the chance of close and continuous examination of what is being done by the Government. It is essential for Parliament to keep an eternal vigilance over public finances as it would like to be maintained over the border of the country. For an effective Parliamentary control over budgeting, it is essential that :

(*i*) the sanctions to expenditure are obtained by the Executive in sufficient details through the budgets,

(*ii*) laws regarding taxes and rules regarding other receipts are laid down as precisely as may be possible,

(*iii*) the Executive should maintain accounts of expenditure and receipts in a manner which enables Parliament to satisfy itself that the Executive has not exceeded the grants sanctioned by it and has not failed to carryout the directions of Parliament as expressed by voting certain funds for specified purposes,

(*iv*) proper rules and procedures are laid down for the collection and accounting of receipts and for the disbursements of Government money,

(*v*) expenditure incurred and revenue collected are in conformity with rules and delegations approved by Parliament or the Executive as the case may be,

(*vi*) purchases are made and the contracts are awarded according to the rules and procedure which are in the best interests of the Government and in accordance with established policy, and

(*vii*) financial transactions of Government are conducted with wisdom, faithfulness and economy.

The representatives of the people should apply their mind to the control of finances in an objective, judicious and impartial

way so that the country may progress on right lines. The Comptroller and Auditor-General helps Parliament in controlling the orderly administration of finances of the country, but ultimate responsibility lies with Parliament for taking proper action on the findings of the Auditor-General. This responsibility can be carried out through the establishment of Standing Committees of the House. Parliament, in order to exercise effective control over the finances of the country has established two committees of the House. They are :

(*i*) The Public Accounts Committee,
(*ii*) The Estimates Committee.

THE PUBLIC ACCOUNTS COMMITTEE

In a democratic form of government, the legislature has the power to grant supplies to the Executive for public expenditure; but mere power to grant supplies will be useless unless the legislature has the means to see that the moneys voted are spent by the Executive on purposes for which they are granted. This is ensured by the provision of audit of government transactions by an independent statutory authority. Under the Indian Constitution, the accounts of the Government are looked into by the Comptroller and Auditor-General of India, who is an independent authority under the Constitution. The Comptroller and Auditor-General of India examines the annual accounts to satisfy himself that moneys granted by the Parliament to the Executive have been applied to the purposes for which they were intended and that they have spent according to law, rules and regulations. He certifies the accounts as correct, subject to whatever reservations he chooses to make, and makes his report to Parliament. He also brings to the notice of Parliament cases of waste and inefficiency, if any. He comments also on important occurrences which are topical, matters of accounting or financial principle which are in dispute and transactions where heavy losses have occurred or might occur. Because under the audit conducted by the Comptroller and Auditor-General, "it is no longer a question merely of satisfying oneself that vouchers exist against every expenditure, that expenditure has been incurred against due sanction, that receipts and expenditure

have been properly booked and that the final accounts represent a true and fair picture of the operations of Government. More and more, Audit has become an instrument, if not the only instrument, of Parliament's control over the financial activities of the Executive".[1]

The Audit Report, together with connected Appropriation accounts, which is presented by the Comptroller and Auditor-General to the Parliament, is so voluminous and technical that unless some expert body examines it and informs the Parliament in simple, short and non-technical language, it will serve little purpose. All auditing would become useless, if the Parliament take no interest in scrutinising the audit reports through some committee. Hence a special committee of the House is constituted which is known as the Public Accounts Committee. It reviews the reports submitted by the Comptroller and Auditor-General and this review completes the cycle of Parliamentary financial control. It is impossible for Parliament to spare time for the discussion of full reports as presented by the Comptroller and Auditor-General. But the control exercised by Parliament does not suffer for this reason, as the reports are examined by a special committee of the House. Shri Asoka Chanda observes, "The provision was made for the examination of the report by a Committee of the House, because Parliament could hardly spare the time for the necessary scrutiny in detail. It was also a technical examination which could best be undertaken in Committee. A debate in the House might also destroy the non-party character of the examination and distort its proper perspective".[2]

The need for a institution like Public Accounts Committee in India was felt very late, though such a Committee existed in the United Kingdom since 1861, when Gladstone appointed for the first time, a select committee on Public Accounts. In case of our country the reason was obvious. The Government of that time was not answerable to the people, and it could not tolerate comments on its financial administration. Therefore, the Auditor-General with the right of independent criticism, submitted his reports for consideration to the Secretary of State for India and not to the legislature. It was only with the

[1] A. K. Roy, *Ibid.*
[2] *Indian Administration*, p. 172

inauguration of the Montague-Chelmsford Reform in 1921, that the question of arming the legislature with the power of expenditure control came to be considered.

The then Government of India, dealing with the question of 'control of legislature', in a despatch to the Secretary of State, suggested that it should be the constitutional duty of the legislature to appoint a committee on Public Accounts, to receive reports from it and to deal with them, in so far as it might be necessary, by resolutions. It was made clear by the Government that the resolutions should not be mandatory. Thus the main function of the committee was to be that of scrutinising and recommending.

The year 1921-22 was the first year of which the expenditure was subjected to the vote of the Legislative Assembly. The accounts of this year were therefore, the first accounts which the first Public Accounts Committee was called upon to scrutinise and to report to the Assembly. The Public Accounts Committee was constituted by partly elected and partly nominated members. The strength of the Committee was fixed at twelve. Eight non-officials were elected by the members of the Assembly and four officials were nominated by the Governor-General. The Finance Member was appointed ex-officio chairman of the Committee. In spite of the fact that the Committee enjoyed only limited powers and its chairman was a man of the Government, it became a major force in the legislative control of public expenditure. The Committee exercised enormous influence in bringing pressure to bear upon the Government to enforce economy in the expenditure of public moneys. While discussing the utility of the work of the Public Accounts Committee in relation to the accounts of the Government of India, the first committee made the following observations,

"We are convinced that the existence of the Public Accounts Committee and the knowledge that it will, in due course scrutinise the accounts of the year's expenditure, examine witnesses from particular departments and call on the Government for explanation of any irregularities or of any failure to keep expenditure on voted items within the limits voted by the Assembly, will be most useful in introducing new methods and machinery into the Departments of the Government of India in dealing

with voted expenditure. The Departments of the Government of India will realise that they are now, for the first time, being brought face to face with the necessity of justifying their expenditure in detail to a responsible body of representatives of the Indian tax-payer. By realising this, they will be led, naturally, as expenditure is incurred during the course of the year, to keep in mind and devise machinery for the task of justifying their expenditure before the Assembly".[8]

The Public Accounts Committee asserted its right to examine the use of appropriations under each demand and to make its recommendations on any excess before this was placed before the Assembly for regularisation. The Committee also extended its power to scrutinise receipts, mentioned in the report of the Auditor-General. It also agitated successfully over the question of bringing under the purview of its scrutiny non-voted expenditure. As years went by, the Committee acquired more and more powers and made a number of recommendations which, having been accepted by Government, are treated as a body of case laws on financial administration.

In the earlier stages of the work of the Public Accounts Committee, there was some confusion regarding the competence of the Committee to deal with the Defence expenditure which was then non-voted. The Committee that met in 1923, considered the Audit Report on Military Accounts for the year 1921-22, with the assistance of the Financial Adviser and the Military Accountant-General. In 1924, the relations between the Auditor-General and the Military Accounts Department with reference to the preparation of the annual Appropriation Accounts and Audit Report on Military expenditure were discussed. It was then agreed that, while the Auditor-General's report on the Military expenditure and the Appropriation Report on which it was based, should be subject to some definite and responsible examination and the then Finance Member undertook to arrange for the examination of the report by a Committee of a departmental character working under the Finance Department. This gave way to examination of Military Accounts. The first Departmental Committee which was set up in 1925, was composed of the Finance Member, the Finance Secretary and the Army Secre-

[8] Interim Report of P.A.C. on the Accounts of 1921-22 para. 4

tary, who was later replaced by the Controller of Civil Accounts in 1929. The report of this *ad hoc* Committee was placed before the Public Accounts Committee and incorporated in part in the latter's report.

In the year 1926, the constitutional position of the Public Accounts Committee was examined by the Finance Department in consultation with the Auditor-General and the Legislative Department and it was concluded that the Committee was entitled to criticise and make recommendations in its reports upon any matter dealt with in the Audit and Appropriation Reports or in the Auditor-General's forwarding report whether such matter related to expenditure, voted or non-voted or receipts. It was also held that constitutionally the Defence Services Appropriation Accounts stood on the same footing as the other accounts, so far as the jurisdiction of the Public Accounts Committee to deal with them was concerned. The Departmental Military Accounts Committee continued to examine the Defence Accounts and submit its Report to the Public Accounts Committee till 1931. The Public Accounts Committee, in its report on the Accounts for 1929-30, suggested the formation of a Military Accounts Committee. It should be composed of the Finance Member as Chairman, the Finance Secretary and three non-official members nominated by the Public Accounts Committee. It was adopted and the reconstituted Military Accounts Committee continued to function upto 1947, when it was suspended, as it had outlived its utility because Defence expenditure became voted as the country became independent.

On the attainment of independence in August, 1947 the Committee on Public Accounts became wholly an elected body, but the Finance Minister continued to be the Chairman. The Chairmanship of the Finance Minister restricted, to some extent, the free expression of views and criticism of the Executive. The lacuna was removed by the Indian Constitution.

Under the provisions of the Indian Constitution, the Public Accounts Committee became a Parliamentary Committee. It is constituted by both the Houses of Parliament for each financial year. The strength of the Committee was initially fixed at 15 members, but in 1953, it was increased to 22, to provide for the representation of the Council of States on it. Now it consists of

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15 members from the House of the People and 7 members from the Council of States. The inclusion of the Members from the Council of States was based on the fact, that though the Council is not directly concerned with the voting of supplies, yet its members were equally interested in the efficient administration of the country's finances. The Secretariat of the Committee, which was previously the responsibility of the Ministry of Finance, became the responsibility of the Parliament Secretariat. The members of the Committee are elected by a system of proportional representation by a single transferable vote and normally representatives of every party in due proportion to their number in the House are elected to the Committee, but as Mr. Asok Chanda observes: "Although, theoretically, the members are elected there is hardly ever a contest in the course of an election. The selection of the members is made with great care, usually from amongst those having a financial and business background. Although the Committee is elected annually, there is a convention that there should be a two-years tenure of membership to ensure continuity. Every Committee has therefore a leavening of members with experience of its working."[4] The Chairman of the Committee is appointed by the Speaker from amongst the members of the Committee. In India, generally the Chairman belongs to the party in power. In a democracy, this practice is undemocratic. The Chairmanship of the Public Accounts Committee should go to a member of the opposition. Mr. K. C. Wheare states that, "It is accepted that the Chairman of the Public Accounts Committee should be chosen from among the members of the opposition party on the Committee. Thus although the Committee will contain a majority of Government members, its proceedings will be incharge of an opposition member".[5]

In the United Kingdom the Chairman of the Public Accounts Committee is a member of the opposition and he is often one who has been Financial Secretary in the previous Government. There is no such convention so far as the Indian Public Accounts Committee is concerned, but in the interest of democratic growth of the country, it is necessary to adopt this convention. Shri

[4] A. Chanda, *Indian Administration*, p. 177
[5] K. C. Wheare, *Government by Committee*, p. 211

A. Ayyanger, the Speaker of the Second Lok Sabha, while inaugurating the 25th Conference of the Presiding Officers, observed, "I am sorry to note that in some States there are no Estimates Committee and in some others there are no Public Accounts Committee. And in some States a Minister is in charge of both the Public Accounts Committee and Estimates Committee, and he presides over both, when he has very often to defend his own subordinates. It is in fact to provide a check against this that the legislature should have a non-official representation as the head of these Committees. So far as Parliament is concerned, we have not yet been able to get any opposition formed. Otherwise my desire is that the Leader of the opposition or his nominees or nominee of the appropriate position must be made the Chairman of the Public Accounts Committee and also the Estimates Committee". In future, the practice may be adopted when opposition becomes united and strong.

The Public Accounts Committee is a powerful instrument in the hands of the House, because it is through this Committee that the accountability of the Government to Parliament in the matters of expenditure is ensured. As regards the functions of the Public Accounts Committee, it is first to ensure that money is spent as Parliament intended, secondly, to ensure the exercise of due economy in Government's financial transactions, and thirdly, to maintain high standard of public morality in all financial matters. To ensure that money is spent as Parliament intended is clearly the primary function of the Committee. This is the job which it was originally set up to do and which, whatever it attempts, it must continue to do. It includes first, a check on the veracity of the accounts and continuous attention to their form and to the principles of accounting. It includes secondly, a check on appropriation and to see that public moneys go in correct amounts to their destinations, the Parliament intended. In the pursuit of this aim, the Committee compares estimates and accounts and hears the reasons for discrepancies. It includes finally, a check on irregularity. The Committee sees that money is spent according to the rules and practices laid down by Parliament, the Finance Ministry, the department and the Committee itself. The second function of the Public Accounts Committee is the promotion of economy. It involves

the examination of cases of waste, the investigation of departmental machinery, methods and actions. Thirdly, the Public Accounts Committee censures doubtful financial practices, and thus acts as a watch-dog of public funds.

The functions to be performed by the Indian Public Accounts Committee as embodied in the 'Rules of Procedure and Conduct or Business in Parliament' is to satisfy itself :

(*a*) that the moneys shown in the accounts as having been disbursed were legally available for and to the service and purpose to which they have been applied or charged;

(*b*) that the expenditure conforms to the authority which governs it; and

(*c*) that every re-appropriation has been made in accordance with the provision made in this behalf under rules framed by the competent authority.

It shall also be the duty of the Public Accounts Committee :

(*a*) to examine, in the light of report of the C. & Ar. Gl. the statement of accounts showing the income and expenditure of State Corporations (e.g. Air Corporations, Damodar Valley Corporation, etc.) trading and manufacturing schemes and projects (e.g. Hindustan Steel, Sindri Fertilizers, etc.) together with the balance sheets and statements of profit and loss accounts, which the President may have required to be prepared under the provisions of the statutory rules regulating the financing of a particular corporation, trading concern or projects;

(*b*) to examine the statement of accounts showing the income and expenditure of autonomous bodies, the audit of which may be conducted by the Comptroller and Auditor-General of India, either under the direction of the President or by a Statute of Parliament; and

(*c*) to consider the report of the Comptroller and Auditor-General in case where the President may have required him to conduct an audit of any receipt or to examine the accounts of stores and stocks.[6]

[6] 'Rules of Procedure', Rule 308 (3)

The nature of the control of the Public Accounts Committee over the financial activities of the Government, can be stated thus :

(*i*) It is an expert control. The Committee is generally composed of senior members having long experience of their job.

(*ii*) It is a judicial control. Its recommendations have almost the force of law for departments and is thus a powerful link between Parliament and the Executive.

(*iii*) It is primarily a financial control. Its work lies mainly in the realm of accounts and auditing and interested in economy and efficiency.

(*iv*) It is a non-party control. The reports of the Committee are not influenced by party considerations. It has been described as a sort of a watch-dog by its insistent barking which calls public attention to any irregularity or extravagance in expenditure.

(*v*) It is a control, which though operating ex-post-facto is not a mere post-mortem but acts as a deterrent.

"It is to these qualities that the Public Accounts Committee owes its success. An accounts committee ought to be expert, for it deals with complicated and technical questions and discuss them with experts. It must be primarily a financial control if it is to use to the best advantage the fruits of audit. Its ability to achieve the reputation of being judicial and non-party means that it can operate with an assurance, a certainty and in effect which bodies with political affinities cannot hope to achieve. Its inevitability with the consequent deterrent effect thereof and its achievement in securing Treasury co-operation to implement reports are probably its most valuable characteristics".[7] The success of the Public Accounts Committee depends upon acquiring these qualities.

The main function of the Public Accounts Committee is to examine the report of the Comptroller and Auditor-General of India, in order to ascertain that the money granted by Parliament has been spent by the Government 'within the scope of the demand'. The Comptroller and Auditor-General prepares a

[7] Basil Chubb, *Control of Expenditure*, 196-197

list of important points arising out of the accounts and his comments thereon and this list which is marked 'Confidential' is circulated to the Chairman and the other members of the Committee. The Secretariat of the Committee, under the direction of the Chairman, prepares a further list and it is also circulated to the Members of the Committee. The latter list supplements the list prepared by the Comptroller and Auditor-General. For the discharge of its functions, and for examining the cases of irregularity, etc. the Committee is empowered to call for papers, persons and records. It can examine the Departmental officials in connection with the expenditure recorded in accounts under its consideration. Secretary of the Ministry together with senior officials appear before the Committee as witnesses, when it examines the accounts of that Ministry. The examination of witnesses is conducted by the Chairman and Members alike and Members feel the satisfaction of having participated to the full in deliberations. During its deliberations an observer from the Finance Ministry is required to be present to keep the Finance Minister informed of the developments. The Comptroller and Auditor-General attends the sittings of the Committee to assist its labours. He sits on the right hand side of the Chairman.* He continuously holds consultations with the Chairman as the evidence is proceeding and very frequently asks questions from the departmental witnesses and also makes comments and observations in the course of such evidence. The Comptroller and Auditor-General is accompanied by his officers who also sit along with him or behind him and continuously assist him with papers, information, etc. The Comptroller and Auditor-General is the acting hand, and the guide, philosopher and friend of the Committee. He is the right hand man of the Chairman, who is generally un-acquainted with the technicalities of the matters dealt with. The Comptroller and Auditor-General not only helps the Committee, but he does his duty as well. In fact, The Public Accounts Committee and the Comptroller and Auditor-General fulfil complementary roles. Sir Malcolm Ramsay, the Comptroller and Auditor-General of the U. K. in 1931 said, "Without the Public Accounts Committee I would be quite ineffective or more ineffective than I am now. They are the sanctions to which

all depends".[8] The relationship between the Public Accounts Committee and the C. & Ar. Gl. can be illustrated by quoting a passage from Hilton Young, "The Committee takes the Treasury in one hand and the Auditor-General in the other, and goes for a hunting in the expenditure for the year under review as certified in the Appropriation Accounts. The Auditor-General beats the bush, the Committee runs it down, and the Treasury breaks it up".[9]

The Indian Public Accounts Committee has adopted a procedure of dividing itself into working groups for specified departments such as Railway, Defence, State Undertakings and Civil Estimates, etc. in order to give minute attention to the reports. Each such group is entrusted with a particular subject. The members of the group study the papers on the subject and hold preliminary meetings among themselves to discuss points of importance on which questions might be put to witnesses. At such meetings the C. & Ar. Gl. or his subordinate officer generally a Deputy C. & Ar. Gl., is also present to assist the Members. Shri A. Ayyangar[10] urged the P. A. C. to set up a standing subcommittee to keep a watch on Public Undertakings. But it is advisable to set up one sub-committee for each Ministry to examine the report in detail. In examining the fact that Government has spent the money within the scope of the demand, the Committee not merely sees that demands exceed the appropriations made, without the approval of Parliament, but also that the nature of items of expenditure compiled against a grant should warrant their being so recorded. This examination is important to ensure that a vote of Parliament has not been avoided by the Executive by adjusting expenditure in excess of a grant to another vote where a saving has accrued. It is also necessary that a grant should have been expended only on purposes set out in detail in the budget estimates.

The function of the Public Accounts Committee is not to formulate policy, but to see that the policy approved by the Parliament has been applied in toto. In performing this function the work of the Committee extends beyond the formality

[8] K. C. Wheare, *Government by Committees*, p. 235
[9] P. C. Das Gupta, *Indian Government System of Accounts and Audit*, p. 25
[10] His speech at Jaipur on 19th May, 1962

of the expenditure to its wisdom, faithfulness and economy. The examination of the Committee covers the manner in which approved policy is being implemented, the degree of efficiency and economy with which Governmental programmes are being executed and the manner in which discretionary powers are being exercised. Mr. Ashok Chanda observes, "It is not concerned with questions of policy in the broader sense, and it is only concerned in the limited degree with the policy of the method of expenditure. It might, for instance, discuss the propriety of expenditure in one way rather than in another or the propriety of some compromise effected by a department. In all matters which are more definitely defined by the settled policy of the Government, the Public Accounts Committee does not attempt any enquiry. As a rule, it expresses no opinion on points of general policy, but the question whether there is any extravagance or waste in carrying out that policy is within its field of investigation. The Committee concentrates more on a general control of economy and leaves questions of internal administration to the Minister in charge of the Department. It considers itself justified, however, in calling attention to the weak points in the administration itself, leaving the department to remedy them".[11] But it is very difficult to lay down what matters come under the jurisdiction of policy, and what matters are excluded from policy jurisdiction. When the Committee examines the accounts and looks into the question of extravangance, wastefulness, etc. it certainly trespasses into the jurisdiction of policy.

After the examination of witnesses and records, etc. by the Public Accounts Committee, a report is prepared by the secretariat of the Committee under the direction of the Chairman and with the assistance of the officers of the C. & Ar. Gl. and is submitted to Parliament. The minutes of the Committee which are drafted by the secretariat of the Committee after approval by the Chairman, form part of the report. The documents supplied to the Committee are also appended to the Report of the Committee but the oral evidences are not included. A copy of the Report is sent to the Comptroller and Auditor-General in advance for factual verification. The recommendations of

[11] *Ibid.*, p. 181

the Committee are invariably accepted and implemented by the Government. If, on any recommendation, the Government's view point differs, the matter is again considered by the Committee, in the light of reasons given by the Government. If, after that, the Committee still thinks that its view-point is correct, it is for Parliament to take a final decision. But it rarely happens as Mr. Chanda observes, "In practice, however, such a situation is not allowed to develop, and the bulk of the issues are settled in discussion and exchange of notes. If a disputed issue were to be debated in the House, and Parliament were to ratify the conclusions of the Public Accounts Committee and over-rule the Government's point of view, it would virtually amount to a vote of no confidence. The majority position of the Government in the Committee and in the House would undoubtedly be brought into play in the unlikely event of such a situation arising".[12]

The general criticism levelled against the working of the Public Accounts Committee are, first, that the Committee's recommendations are not binding upon the Government. It is upto the sweetwill of the Government either to accept and implement the recommendations of the Committee or not to do so. No doubt, the Committee has no power to compel any administrative action to be taken on its observations, but this fact has not affected the effectiveness of the Committee's recommendations. The Committee's power is indirect, and lies nominally in the potential results of its reports and in the publicity, which is the foundation stone of democracy, which it is able to give to the question it investigates and in the moral effect of its criticism. It is upto the Government to lay down a healthy convention of accepting and implementing the recommendations of the Committee. Secondly, it is said that the examination of the Public Accounts Committee is of a post-mortem nature. It serves little purpose, because once money has been mis-spent, it cannot be recalled. But still a post-mortem examination has its own utility. Mr. G. V. Mavalankar said that, "The very fact of consciousness that there is some one who will scrutinise what has been done, is a great check on the slackness or negligence . . . of the executive. The examination, if it is properly carried out, thus leads

[12] *Ibid.*, p. 183

to general efficiency of the administration. The examination by the Committee may also be useful as a guide for both future estimates and future policies".[13] He asserted that, "the Public Accounts Committee can influence a good deal even the running administration as we profit by past experience".[13] If the post-mortem examination cannot undo what has already been done, its results certainly guide the future policies. Sydney Webb, in stressing the importance of post-mortem examination observes that, "the post-mortem examination does nothing to keep the patient alive is no proof that the existence of a system of post-mortem examination does not prevent murders. Indeed post-mortem have done a great deal to bring medical science to its present state of efficiency". Referring to the approach which the Public Accounts Committee should adopt in doing its work, Mr. Mavalankar made the following significant observations.[14]

> "(*i*) I have always believed that after all, whatever the quality and quantum of expert knowledge, it has to be tested by the service it renders to the common consumer and therefore the consumer's or the layman's ideals in this respect have to be taken into consideration.
>
> (*ii*) Members of Parliament will better understand the intention and the mind of Parliament than the C. & Ar. Gl. and they can better exercise their discretion and judgment.
>
> (*iii*) We are divided, opposed so long as we discuss a matter and so long as finality is not reached. The moment finality is reached it should be the effort of everyone to support that. You are sitting in the Committee to go by what the Parliament had laid down. The direct corollary is that there must not be any party politics so far examination of the accounts is concerned.
>
> (*iv*) Even in cases where the Committee finds that money has not been properly spent or proper sanction has not been obtained or that the interpretation put by the executive officers or the Audit Department is wrong, we have to see their point of view and unless one is convinced by proof, not by mere sus-

[13] S. L. Shakdher in his Article in the *Journal of Parliamentary Information*

[14] S. L. Shakdher in his *Article in the Journal of Parliamentary Information*

picion that there is something wrong somewhere in the sense that there is some misappropriation or mishandling of the money, our approach has always to be one of sympathy and one of give and take".

The observance of these suggestions of a learned parliamentarian will make the job of the Public Accounts Committee easier. These observations will guide the path of the Committee in conducting its functions.

ESTIMATES COMMITTEE

The institution of Public Accounts Committee provides machanism to secure the accountablilty in respect of expenditure voted by Parliament. But that is not enough. For a comprehensive Parliamentary control over public expenditure, it is equally necessary to provide for a detailed examination of the estimates presented to the House for securing possible economies in the execution of the Governmental programmes and schemes. In a democratic form of Government, it is felt that positive economies in the appropriation of national resources could be effected if the estimates are submitted for scrutiny and examination by an independent Parliamentary Committee, before they are presented to the House for authorisation. Thus there is need for a representative Committee of parliament to examine details of estimates thoroughly from year to year in a selective way. This has led to the formation of Estimates Committee in many countries.

In India, the idea of an Estimates Committee was first mooted in 1938. Though on the 25th August, 1937, a member raised a question in the Central Legislative Assembly, about its formation, yet the then Finance Minister said that he did not propose to set up an Estimates Committee. It was on April 8, 1938, when during discussion on a motion regarding the appointment of a retrenchment committee in the Central Legislative Assembly, the then Finance Minister showed his willingness to appoint instead an Estimates Committee, provided a Government official was appointed its secretary and the subjects to be examined by the Committee were selected by the Finance Department.

The Assembly rejected the proposal because they did not like the Committee to work in an official atmosphere. On March 14, 1944, during the debate on a cut motion in the Central Legislative Assembly, the then Finance Member agreed in principle to the appointment of an Estimates Committee, but said that he could not agree to its functioning immediately.[15]

After independence, following a Memorandum by Shri M. N. Kaul, the then Secretary of the Constituent Assembly of India, which was strongly recommended for adoption by the then Speaker, Shri G. V. Mavalankar, the Estimates Committee was set up for the first time in 1950 after the coming into force of the Indian Constitution. In January,1950, Dr. John Matthai, the then Finance Minister, proposed for the constitution of an Estimate Committee, which would scrutinise the expenditure of each department of the Government and of the Government as a whole. He hoped that the Committee would exert a healthy influence upon the course of public expenditure in two directions. First, the Committee's suggestions and criticisms would give very useful guidance to the Government in the matter of regulating expenditure. Secondly the knowledge that the expenditure of the Government and of the various departments of the Government would be examined in detail by an independent authority, would act as a deterrent to extravagance in public expenditure. He further stated that, "the results of its reports would not lead to the immediate modification of the expenditure which had been proposed or of the expenditure which had already been accepted by the House. It would, however, be a guide to the Treasury and the Ministry concerned with regard to the basis on which proposals of expenditure should be framed for the coming years". Defining the functions of the Committee, he stated that the Estimates Committee would work as a continuous Economy Committee. It would not be concerned with the policy of the Government, but its business would be to ensure that, within the framework of the policy laid down by the Government and the House, only the minimum expenditure needed for the purpose of fulfilling the objective of the Government, would be incurred.

[15] L. A. Debates, 1937 vol. IV, p. 506-7, 1938 vol. III, p. 2865-7 and 1944 – vol, II, p. 1072

In pursuance of this resolution, the Estimates Committee came to be constituted. It is elected every year from amongst the Members of the Lok Sabha only, according to the principle of proportionate representation by means of single transferable vote. The Committee consists of 30 members. The quorum is 10. The motion for the election of the Committee for the following year is moved by the Chairman of the Committee, usually a fortnight before the term of the current committee comes to an end. At the commencement of the new House, the first motion is moved by a Minister of the Government. The Chairman of the Committee is nominated by the Speaker, but if the Deputy Speaker is a member of the Committee, he becomes the Chairman automatically. In the case of the Estimates Committee, the Chairman is unfailingly from the members of the ruling party. Mr. K. C. Wheare observes, "The Estimates Committee, however, appears to have established a usage of choosing its Chairman from among the members of the Government party. It is possible to see a reason and perhaps a justification for the difference in practice between the two committees. As the Public Accounts Committee is looking at past, the Government is prepared to tolerate the choice of the Chairman who will not be disposed to see mistakes glossed over or whitewashed. When it comes to estimates, not yet voted, is being discussed, the majority party feels safer perhaps with a Chairman of its own way of thinking".[16] In the interest of safer functioning of the Government, the Chairman of the Estimates Committee should belong to the party in power. No member who is a Minister or a Deputy Minister or a Parliamentary Secretary can become a member of the Committee. If a member of the Committee is later appointed a Minister or a Deputy Minister or a Parliamentary Secretary, he ceases to be a member of the Committee. If a Member of the Committee is appointed a Minister of Government, another member would normally be appointed in his place.

The Role of the Estimates Committee

The Estimates Committee is not to adopt a hostile attitude towards the Government. It is expected to help the Government

[16] *Ibid.*, p. 211

in its task of efficient financial administration of the country. The role of the Estimates Committee has been succinctly described by Shri Balvantray Gopaljee Mehta, Chairman of the Committee (1956), at a sitting of the Committee in the following words :

"We have taken up our work in the spirit of trying to help the Government and with the same objective or view as Government, the objective being the efficient management of certain affairs of each Department of the Government. The object of the Estimates Committee has been to see that money voted by Parliament from the Public Treasury is used properly and wields the best results. For that purpose we even try to go into the policy behind the estimates and also the principles and programmes adopted for carrying out the whole policy. In our endeavour to find the best way the money allotted by Parliament is spent, we sometimes even suggest some alternative policies or even modification of programmes. All that is not with a view to find fault but with a view to see that the common objective of both the Government and Parliament is fully achieved".[17]

On another occasion he further emphasised the same role of the Estimates Committee in these words :

"It is not that we (the Committee and the Government) are going to work at cross purposes; because there have been all sorts of reports and misunderstandings going around, I would like to remove at the outset any misunderstanding on the part of anybody. We are trying to help in every possible way. It is our Government. Naturally it is. All of us, whether we belong to one party or the other, are interested in seeing that the Governmental machinery functions smoothly, harmoniously and effectively. It is our business, as members of Parliament belonging to this important Committee to help the Government in bringing to its notice the public opinion, informed opinion, if there is any, and give constructive suggestions for the improvement of the Governmental machinery. The machinery is not bad, it is quite good and it has worked

[17] Proceedings of the Committee for 22nd October, 1956

well but there may be scope — as there is scope in every human activity — specially in our country, for improvement. Therefore we can help the Government and we shall be satisfied when we do it. That is the spirit in which we have started this work and hope our work will be taken in that light".[18]

Dr. B. V. Keskar, Minister for Information and Broadcasting, speaking in the Lok Sabha on March 11, 1955 also made the same point while referring to the 12th Report of the Committee. He said, "I might express here my appreciation of the way the Estimates Committee has gone into the matter, and I am also grateful for its appreciation of the working of A.I.R., in general. It is the duty of the Committee to suggest improvements. Improvement is a continuous process. And even after carrying out the improvements suggested there would be room for improvement still. All these improvements will continuously go on. Therefore, it should not be taken when the Estimates Committee suggested improvements in the A.I.R. or in any other department that it condemns the working of that department. I think it is a wrong way of considering the functions of the Estimates Committee".

The functions of the Estimates Committee as laid down in the Rules of Procedure are :

(*a*) to report what economies, improvements in organisation, efficiency or administrative reform, consistent with the policy underlying the estimates, may be effected;

(*b*) to suggest alternative policies in order to bring about efficiency and economy in administration;

(*c*) to examine whether the money is well laid out within the limits of the policy implied in the estimates; and

(*d*) to suggest the form in which the estimates shall be presented to Parliament.

The Rules of Procedure of the House also provide that the Speaker may, from time to time issue directions to the Chairman of the Committee as he may consider necessary for regulating its procedure and organisation of work. Also the Chairman may,

[18] Proceedings of the Committee for 17th October, 1955

if he thinks fit, refer any point of procedure to the Speaker for his decision. In pursuance of this power, the Speaker has issued a number of directions from time to time regulating the procedure of the Committee. These directions have been issued by the Speaker after considering concrete cases that have been brought to his notice by the Chairman of the Committee. By the rules and directions, the Committee or its Chairman is bound to refer certain matters of procedure to the Speaker for his decision or guidance, in case need arises. This is done to avoid reference to the House.

The Estimates Committee is empowered to appoint one or more sub-Committees, each having the power of the undivided Committee, to examine any matters that may be referred to it and the report of such a sub-Committee is deemed to be the reports of the whole Committee, if it is approved at a sitting of the whole Committee. This power has been used on a number of occasions. There is one sub-Committee of the Estimates Committee for considering the Estimates relating to the Ministry of Defence. In view of the growing importance relating to the public sector enterprises and other statutory bodies, the Speaker issued a Direction (Direction No. 101-A by the Speaker) in May, 1959, for the constitution of Standing sub-Committee on public undertakings with power to call for information and hear officials and take any other evidence connected with the estimates of public undertakings under examination. The Direction defined a public undertaking, "as an organisation endowed with a legal personality and set up by or under the provisions of a statute for undertaking on behalf of Government of India, an enterprise of industrial, commercial or financial nature or a special service in the public interest and possessing a large measure of administrative and financial autonomy". Thus all statutory bodies, leaving those not enjoying corporate status which carry on industrial, commercial or financial activity or operate a special service, fall within the purview of this sub-Committee. The members of the sub-Committee are selected by the Chairman of the Committee from amongst the members of the Committee, and the sub-Committee works under the guidance and direction of the Chairman of the Estimates Com-

mittee. Now a separate Committee has been constituted for public enterprises.

After the formation of the Estimates Committee, it makes a selection of the estimates, which it would like to examine in a particular year. The Committee is empowered to examine such of the estimates as may seem fit to it. It is open to the Committee to call for details also in respect of expenditure charged on the Consolidated Fund of India. The Speaker has also directed the Committee to scrutinise whether the classification of estimates between voted and charged has been done strictly in accordance with the provisions of the Constitution. After the choice of the department has been made, the office of the Committee sets about collecting and collating all material relevant to an examination of the estimates. The Committee hears officials and takes evidences connected with the estimates under examination. It can prepare a questionnaire under the guidance of the Chairman to be replied to by the Departmental Heads. The material collected forms the basis of a subsequent examination of the estimates. The Estimates Committee is empowered to send for any person, paper and record. The Committee sometimes calls for non-official witnesses also and ascertains their expert opinion on any important matter. Any paper, which the Committee wants, is supplied to it. The Committee does not ask for files or other papers which are not relevant to its enquiry. In exceptional cases, the Committee may be informed that a particular paper or record is secret or confidential, and it is not in the public interest to disclose the contents. If the Minister certifies that the disclosure of the document is prejudicial to the safety of the State, the Committee does not enquire further and the matter ends. But in the case of a paper for which privilege is claimed on the ground of secrecy and the Committee does not agree, the matter may be referred to the Speaker for his guidance. So far no such case has arisen, because in the ultimate analysis, the Chairman of the Committee and the Minister have, after discussion resolved the difficulty. In all such cases so far, the Minister has made the papers available to the Chairman, and the Chairman, after looking into them, has explained the position to the Committee. Where the Chairman, after the perusal of a particular paper,

has come to the conclusion that it is not of such a secret nature that it should be withheld from the Committee, the Minister complies with the wishes of the Chairman and the paper is made available to the Committee.

It is, however, to be noted that the Committee does not proceed to analyse the figures comprising the estimates with a view to seeking justification for each sum included in the estimates just as a budget officer of the Government will do. Since the figures represent the activities of the Ministry or Department and the Committee is interested in examining those activities, it scrutinises them from the following points of view :

(*a*) Whether the most modern and economical methods have been employed;

(*b*) whether the persons of requisite calibre on proper wages with necessary amenities and in right numbers have been put on the job;

(*c*) whether duplication, delays and defective contracts have been avoided;

(*d*) whether right consultation has preceded the execution of the job; and

(*e*) whether the production is worth the money spent on it.

After taking evidences and looking into the papers and records supplied by the departmental officers, the Committee meets to consider the estimates and to formulate its recommendations to be submitted to the House. If the Committee does not agree fully with the policy reflected in the estimates, it is a convention that, before finalising the report, the Chairman of the Committee discusses the matter informally with the Minister concerned. If the Committee feels it necessary to reconsider its conclusions in the light of these discussions a report is drafted in that light. As the Committee works on non-party lines, its decisions are unanimous. There is no system of writing a note of dissent. Shri A. Ayyanger, the Speaker of the 2nd Lok Sabha, while addressing the Estimates Committee on May 4, 1961, pointed out that, "There are no party differences in this Committee. On the floor of the House, it appears sometimes that the members of the opposing groups are irreconcilable. But in this

Committee I am yet to come across an instance, after all these eleven years of its existence, when opinions have been expressed on the basis of party affiliations. I hope and trust that this kind of harmony will always prevail among all sections of people constituting this Committee and that all of them will work with one interest, merely to serve the community and to see that no wastage occurs". This is a healthy convention which the future Committees are expected to follow. Sardar Hukam Singh, the Speaker of the Third Lok Sabha, also advised the members, "not to regard themselves as belonging to one party or the other but as representatives of the people and the nation. Reports should, therefore, be unanimous".[10] His valued advice must be followed by the members.

It is a convention to show the draft report to the Speaker before its presentation to the House. However, the Speaker merely peruses the report and never refers any matter to the Committee for reconsideration, amplification or elucidation. Since 1958, the recommendations of the Estimates Committee as embodied in its report, are classified at the end of the report in an Appendix under the following heads :

1. Recommendations for improving the organisation and working of the Department.
2. Recommendations for effecting economy, an analysis of more important recommendations directed towards economy is also given. Where possible, money value is also computed.
3. Miscellaneous or general recommendations.

A copy of the report is also sent to the Ministry for factual verification before presentation to the House. This gives the Ministry another opportunity to submit its view points with any new facts or considerations. After presentation of the report to the House, there is no formal debate on it, but it is open, however, to any member to refer to the report at the time of general discussion on the budget or when the estimates concerned are under consideration, or ask questions during question hours, as the report provides a good deal of raw material. Mr. Ayyanger expressed in a meeting at Jaipur on May 19, 1961 that he is

[10] Speech delivered on 22nd April at Jaipur. *Hindustan Times.*

against discussion of the Estimates Committee's report in Parliament since that would be 'suicidal', but in respect of Public Accounts Committee's reports he preferred discussion on specific points. It would not be proper to discuss the reports of the Committee in the Parliament as a whole. Too much time would be taken up in such discussions and since there would be defenders and critics of the reports, they would lose the importance they enjoyed at present. Particular recommendations or criticism embodied in the reports, however, can be raised in the House. Thus the reports of the Estimates Committee have an educative value. The recommendations of the Estimates Committee, in many cases, are of a far-reaching character. The Government are not bound to accept all the recommendations of the committee, though much weight and importance are attached to the reports and the recommendations of the Committee. The Government examines carefully all the recommendations and expresses its inability to implement a recommendation only when there are weighty reasons for doing so. Sometimes, it is also a question of time factor. A recommendation may not be immediately acceptable to the Government, but, in due course, it may be implemented due to certain changed circumstances. There are many examples of this nature. For instance, the Committee in its 9th report to First Lok Sabha, recommended the nationalisation of the Imperial Bank. The Government was not inclined to accept the recommendation at the time the report was made, but, a little later, the Bank was nationalised. After the report is submitted by the Committee and the Government has considered the recommendations carefully, it forwards its views to the Committee within a reasonable time, intimating the nature of action taken on the recommendations and suggestions. In a majority of cases, Government accepts the recommendations. In some cases, reasons are advanced by the Government why it is not in a position to accept the recommendation.

The replies received from Ministries and Departments concerned are analysed by the Committee in four statements :

(*i*) Statement I shows the recommendations and suggestions, etc. agreed to by the Government and implemented.

(*ii*) Statement II shows the recommendations which it has

not been possible for the Ministry or Department to implement for reasons stated by them and which the Committee on reconsideration thinks should not be pressed.

(*iii*) Statement III shows the recommendations which the Government are unable to accept for the reasons given by them but which the Committee feels should be implemented.

(*iv*) Statement IV shows the recommendations to which final replies of the Government have not been received.

These four statements are presented to the House in the form of a further report from the Committee, and then it is left to the House to take such further action as it may like.

The action then taken by the Government on the reports is studied, analysed and considered by a Standing sub-Committee of the Estimates Committee which is appointed at the beginning of each year. The sub-Committee goes into every recommendation thoroughly and may sometimes call the departmental witnesses to amplify the written statements supplied by the department. The report of the sub-Committee is then placed before the whole Committee and it is only after the Committee has deliberated on it and approved it, that the final report is presented to the House. Sometimes the process of watching the implementation of recommendation is spread over many years and the successive committees consider them. In this connection it is observed, "The Committee is conscious of the fact that it should not prolong a matter unnecessarily so that it may not have to deal with a large accumulation of arrears as years roll on. The delays are present due to the slackness on the part of Government Departments in furnishing replies. Such delated views of the Government sometimes throw the recommendation of the Committee out of focus and it is waste of time and energy to pursue such recommendations. In such cases the Committee would do well to close the matter by making a report to the House on the delays in receiving replies and leave the matter to be settled by the House in such manner as it deems fit".[20]

The reports of the Estimates Committee are submitted throughout the year irrespective of the fact that the House has voted the Estimates. This is so because the estimates are presented

[20] S. L. Shakdher, Two Estimates Committees.

to the House on the last day of February and they are passed before the end of April. Thus the Estimates Committee gets only two months and during this period it finds it difficult to complete the work. Legally and constitutionally, the reports of the Committee are not binding on the House or Government. The Government may or may not accept its recommendations. As the estimates are voted by the Parliament in the shape of authorisations not exceeding certain upper limits, it is always open to Government to spend less and to accept the recommendations of the Estimates Committee and effect economy. In any case, the views of the Estimates Committee would be reflected in the next year's estimates and the House can always draw attention to the previous reports and call for explanation from the Government as to why the estimates have not been prepared after taking into account the recommendations of the Estimates Committee.

In examining the estimates, the Estimates Committee is prohibited from going into the question of policy. It is not authorised to formulate or criticise policy. What it can scrutinise is the application of policy—its forms and results. Shri A. Ayyanger, the Speaker of the 2nd Lok Sabha, while inaugurating the Estimates Committee in May, 1959 said, "Your function is not to lay down any policy. Whatever policy is laid down by Parliament, your business is to see that, that policy is carried out—not independently or divorced from its financial implications. You must bear in mind constantly that you are a financial committee and you are concerned with all matters in which finances are involved. It is only where a policy involves expenditure and while going into the expenditure you find that the policy has not worked properly, you are entitled and competent to go into it. Where the policy is leading to waste, you are entitled to comment on it in a suitable way".

The term 'policy' is a comprehensive term. The Speaker issued a Direction to the Committee explaining the connotation of the term 'policy'. The term 'policy' he explained, "relates only to policies laid down by Parliament by statute or by specific resolutions passed from time to time. It shall be open to the Committee to examine any matter which may have been settled as a matter of policy by the Government in the discharge of its

executive functions".[21] The Direction further provided, "The Committee shall not go against the policy approved by Parliament, but where it is established on evidence that a particular policy is not leading to the expected or desired results or is leading to waste, it is the duty of the Committee to bring to the notice of the House that a change in the policy is called for".[21] It is further stated that "The fundamental objectives of the Committee are economy, efficiency in administration and ensuring that money is well laid out; but, if on close examination, it is revealed that large sums are going to waste because a certain policy is followed, the Committee may point out the defects and give reasons for the change of the policy for the consideration of the House".[21] Thus, in regard to policies approved by Parliament, the Committee normally does not go behind the policy, but if in the course of its examination, the Committee finds that it is not leading to the desired results and there is waste of expenditure and public resources, the Committee may draw attention to such a waste and advocate the adoption of alternative policies. This will be useful not only to Parliament but also to the Government, as Shri C. D. Deshmukh the then Finance Minister in the course of a speech on the May 23, 1952, in the Lok Sabha, said, "I look forward to continuing assistance from the labours of the Estimates Committee in securing that, within the four corners of the policy laid down by Parliament, the moneys authorised to be spent by it are utilised to the best possible advantage without avoidable waste". The Estimates Committee cannot go beyond the limits set by the policy of the Parliament. However, so far as the executive policies are concerned, there are no limitations on the powers of the Committee. But it is very difficult to lay down specifically where policy begins and where it ends. The Committee is empowered to examine estimates from the point of view of extravagance. Does not that lead it into questions of policy? Mr. K. C. Wheare observes, "Even more likely is it that the Estimates Committee in considering proposals for expenditure is likely to be led into judgements upon waste and extravagance, which are bound to lead to judgements upon the wisdom of the policy which led to

[21] Direction No. 98 (3) issued by the Speaker.

this expenditure".[22] The Committee cannot perform its duties properly without reference to the policy pursued by the Government.

In our country, no member of the Estimates Committee can be a member of a committee for examination of a matter which is concurrently under the examination of the Estimates Committee, unless he has taken the permission of the Speaker before accepting nomination on the Government Committee. The Speaker, after consultation with the Chairman of the Committee, may either allow a member to be a member or chairman of the Government Committee or advise him to decline the offer. But there has been no such case so far. The member may, if he is keen on accepting nomination on the Government Committee, resign from the Estimates Committee. For instance, Shri Mahavir Tyagi, member, Estimates Committee resigned from the Committee on his appointment as a Chairman of Government Committee regarding Direct Taxes Administration Enquiry (1958). The Estimates Committee had decided earlier to take up the examination of the Income-Tax Department; and Smt. Renuka Roy, resigned from the Estimates Committee (1958-59) on her appointment as a member of the Study Team on Social Welfare. In case, however, the Speaker has permitted a member of the Estimates Committee to be a member or Chairman of a Government Committee on the same subject as the Estimates Committee had been examining then, he has always stipulated that the report of the Government Committee shall be made available to the Estimates Committee and it should not be released for publication without the permission of Estimates Committee or before the Estimates Committee has presented its own report on the same subject. In case the Estimates Committee is not considering the same subject, no such stipulation is made.

An Appraisal of the System

It is feared that the members of the Public Accounts Committee and the Estimates Committee, have party affiliations and it is difficult to maintain non-party character of the Committee. Mr. K. C. Wheare observes, "It is often difficult to keep

[22] *Ibid.*, p. 237

quite clear of it — the party division begins to show itself and the Committee becomes a debating body and not a scrutinising and controlling body".[23] As soon as some question arises and is discussed, the Committee may be divided into the Government and opposition. It is also feared that, the Government would have a majority on the Committee, so the possibility of an adverse report would be unlikely. This fear can be removed by keeping the policy matters outside the jurisdiction of the Committee. "If a Committee composed of party men is to perform successfully the function of scrutinising, the performances of Governmental processes, it must keep away from discussion of policy".[23] If a member of the opposition is made the Chairman, as has been suggested by the Speaker, it will be helpful in maintaining the non-party character of the Committee. This also ensures that the Government's spending is going to be scrutinised with no special tenderness. The non-party character of the Committee can also be maintained by having a very high standard of public morality of the members. In India, a review of Financial Committees indicates that they work on non-party lines and there has been no division so far in the Committee on any matter. The members of the opposition have frequently testified to the non-partyness of the Committees. On many issues, it has been found, that the members of the ruling party have criticised the Government's actions, while members of the opposition parties have supported them. These healthy traditions, laid down in the formative years, will go a long way in maintaining the non-party character of the Committees in future.

Besides this, the members of these Committees are all layman and not experts. That is not to say, they are ignorant or uninterested in the subject matter of the Committee's scrutiny. These Committees call for evidences of the Government officials. The layman is confronted by the officials. The Government official is, in relation to the members of the Committee, an expert. What is more, he is there to defend his department and he is therefore an interested party. How are these lay Committees effectively to scrutinise and to examine the work and the evidence of these expert officials. The Public Accounts Committee is

[23] *Ibid.*, p. 210

assisted in its work by the Comptroller and Auditor-General of India and his staff. But the Estimates Committee has no expert assistance. It has been held that the Estimates Committee is a layman's Committee and it must bring to bear the point of view of the layman on the matters under examination. If the Committee is to be assisted by experts, it might well happen that the committee may come to be dominated by those experts. This may ultimately lead to putting up experts on the Committee against the experts of the Government. Thereby there is a danger of conflict between the Committee and the Government, and the Parliament will lose the benefit of the advice of its own members assembled in the Estimates Committee. If an expert enquiry is wanted, it should best be left to the Department to constitute such an enquiry and the experts should be left to themselves to make suggestions.

But these arguments are not justified. The Estimates Committee should not become an expert Committee or a Committee of experts, but what is desired is that it should be assisted by an expert to understand the language of experts. The work of experts can be examined only by an expert or with the help of an expert. A mechanic alone can find out the faults of another mechanic and not a layman. In this connection, the views of Mr. Osbert Peak, who was Chairman of the Public Accounts Committee of the U. K. in 1946, are noteworthy. He said :

> "I sat on the Estimates Committee for some years. They must have expert guidance, if they are going to be effective. The form that expert guidance should take is a very difficult question indeed, because, the best adviser they are likely to get is a Treasury official, probably, but a Treasury official is to some extent advising them on questions which the Treasury have already considered and have satisfied themselves about. In the second place, of course, a Treasury official who is going back to the Treasury after concluding his period of attachment to the Estimates Committee, has got his future to think of, and he cannot afford to make too many enemies in his own department. Of course, there is a very very high standard of conscientiousness among Government officials, to which we can all pay a tribute, I think, but it seems to me that the

> Estimates Committee should have some body who is not a servant of the executive to guide them in their labours, and that they could not probably do better than to make somebody available from the Treasury from time to time, for that office who is getting towards the end of his public career, and who therefore is not going back into the Department".[24]

These Parliamentary Committees, must, if they are to work effectively, be wisely led and wisely fed. The task of leading and feeding them rests with the officials who are to assist them. To feed and guide the Estimates Committee, it is advisable that an office of the 'Examiner of the Estimates' on the lines of the Comptroller and Auditor-General be established. He should not be an officer of the Finance Ministry but an officer of Parliament. He should have his own staff to assist him. This suggestion is based on the analogy of the Public Accounts Committee, where the C. & Ar. G.'s assistance is available. This officer must be independent, may not be an expert, as any efficient and experienced officer of the House can certainly learn (if he does not already know) his way about the Estimates and accounts. He can acquire information which the Committee asks him to supply with. His duties should be to know how to get the information that the Committee wants. He is not to conduct an enquiry into it, but to get the stuff and present it to the committee in the form in which it wants. He should also be an expert on parliamentary procedure. The institution of an office of the 'Examiner of Estimates' will go a long way in making the working of the Estimates Committee more useful. It may be objected on the ground that too many officers of the Parliament will be a costly affair, and it will create too much of officialism. But when there is too much expansion in the number of Ministers and Deputy Ministers, and officials of the Government, there can be a few more independent officers of the Parliament. In a developing country like India, where public expenditure has increased enormously, there is need to have a watch-dog at every door to control and examine the activities of the Government. Besides, it is essential that every member should specialise in the working of some particular

[24] K. C. Wheare, p. 224

department of the Government to make the deliberations of the Committee effective.

It is sometimes argued that the officers who give evidences before the Estimates Committee are required to defend the policy of the Government. This is not a fact. The Committee has never asked official witnesses to explain the reasons behind the merits or demerits of the Government policy. The Committee only asks them to explain how a policy is being implemented in practice by the executive officers. This is perfectly within the competence of the officers to say and to explain. The idea behind calling departmental witnesses to appear before the Committee is that since the expenditure is authorised by the executive officers and is actually incurred by them, it is they alone who should be answerable for any waste or mismanagement or mis-spending of funds in the execution of the policy laid down by Parliament. Ministers are not called for giving evidence because, first, they are concerned with policy matters which the Committee does not enquire, and secondly, they do not sanction day-to-day expenditure.

It is also said that the value of the recommendations made by the Committee is detracted, because the Government may not accept them. This impression is erroneous. The recommendations of the Estimates Committee are treated with great respect by Government and every endeavour is made to implement them. The Speaker in a letter (D. O. letter No. 579/Cl/56 dated December 18, 1956) to the Minister for Parliamentary Affairs in 1956 wrote, "that although technically the recommendations of a parliamentary committee are not formally described as directions by the House they are in practice regarded as such by convention". In the majority of cases, the Government does accept recommendations as is clear from the reports of the Estimates Committee. In some cases, where Government has difficulties in accepting a recommendation, it has reasons for that view. It generally places the matter again before the Committee for its reconsideration. The Committee in many cases has accepted the Government's difficulties, and dropped its earlier recommendation or it has insisted on the implementation of the recommendations. It should however, be noted that the Committee's task is to influence the Government in its long-

term thinking and plans and it will be difficult for any Government to come forward immediately with the acceptance of all the recommendations. The Government has to consider each issue carefully and to consult the various interests involved, before implementing a recommendation.

There is one serious drawback in the working of the Estimates Committee. The Committee examines only the estimates of the expenditure. The examination of the estimates of revenues is not within the jurisdiction of the Committee. This work of framing and examining the estimates of revenues is entirely the function of the Ministry of Finance. The Estimates Committee should also see whether the estimates of the revenues are also correct as per the policy of the Parliament.

These Parliamentary Committees can also be referred to in certain specific matters, besides their usual duties. Shri A. Ayyanger in the inaugural address to 25th Conference of the Presiding Officers said, "the functions of these committees ought not to be restricted to a general scrutiny of the accounts periodically, but they must be entrusted with the work of scrutinising the estimates and accounts ad hoc, as and when particular matters assume importance and come up for public criticism. I have often referred various specific matters to these committees for immediate examination and report to Parliament. I now commend the liberal use of this practice in all legislatures". On several occasions the services of these Committees were utilised by the Speaker. For instance, on 24th March, 1951, matter relating to loss to Railway Collieries arising out of discussion on the relevant supply demand was referred to by the Speaker to the Estimates Committee; on 21st February, 1958, matter relating to Dandakaranya Scheme arising out of a discussion on a cut motion was referred to by the Speaker to the Estimates Committee; on 10th March, 1959, matter relating to shortfall in production at the Bharat Electronics arising out of supplementaries to questions was referred to by the Speaker to the Estimates Committee.

In a young and developing democracy of India, these Parliamentary Committees to control budgeting, are to play an important role in the financial administration of the country. For, whatever they have done in the past, they have won appreciation for their useful role. Shri C. D. Deshmukh, when he

was Finance Minister, in a speech delivered in the House on April 10, 1951 said, "All I can say is that we have every intention of treating the Estimates Committee as an ally and of seeing to what extent they will help us to consume and apply our resources to the best possible advantage". Similarly Shri Gulzari Lal Nanda, the then Minister for Irrigation and Power, said in the Lok Sabha on April 7, 1954, "I may also pay a special tribute to the work of Estimates Committee . . . . I must say that their work in totality was exceedingly useful and of great assistance and must acknowledge it". The Estimates Committee has paid a great deal of attention to the organisational aspect, and its various reports dealt with some aspect or the other. For example, its very first report touched upon the efficiency and organisation of the Ministry then examined. The 2nd report was entirely devoted to the reorganisation of the Secretariat of the Departments of the Government. Its 9th report dealt with the question of administrative, financial and other reforms. Similarly, its 16th report dealt with organisation and administration of the public undertakings. The 20th Report dealt with Budgetary reform. The 73rd and 80th reports dealt with preparation of budget estimates and form of organization of public undertakings respectively. The reports of these Committees show that it is doing its job, and is doing it well. These Committees have to render more and more useful services in the efficient financial administration of the country, keeping in view the fact that they have to deal more effectively with cases of inefficiency and inaction wherever found. The public and Parliament will not tolerate inaction or failure of action in the growing democracy. For bringing and making these Committees more useful and efficient in their functioning, it should be brought into practice that every member of one of the two Committees should, on retirement become a member of the other committee, so as to gain from their experiences. These Committees should not remain satisfied with merely checking past expenditure, but also devote attention to current matters. Through the working of these committees, standard practices in the financial administration should be established to give guidance for the future and to keep a close control on the financial functions of the Government.

REVIVAL OF THE STANDING FINANCE COMMITTEE

At present when the economic activities of the Government are increasing and huge funds are being spent on plan-schemes, it is essential to devise means for making the parliamentary control over finances more vigilant if not strict. For this, Shri A. Ayyanger suggested, setting up a Standing Finance Committee to review the new schemes of the Government in the financial perspective.

The Standing Finance Committee did useful work in the past. But it was abolished sometime after the Government became responsible to Parliament. The Estimates Committee in its 20th Report suggested its revival. The Committee observes, "It might be a distinct advantage both to Government and to Parliament if this committee is revived. It might have the authority to scrutinise such new items of expenditure above a certain limit as the Government might place before it, before they are included in the budget. The Committee may, however, be purely advisory and Government need not be bound to accept all its suggestions or its criticism. Even then, it would provide an opportunity to Members of Parliament to study the proposals in their proper perspective and thus enable them to offer well-informed criticism of individual schemes in a manner which would not be otherwise possible in Parliament. Besides, this would also enable public participation in the drawing up of schemes for inclusion in the budget".[25]

Every year, the number of important new items of expenditure, costing more than Rs. 5 lakhs, is increasing. The budget for the year 1962-63 contained 559 such items, the total estimated costs of which were Rs. 122,83,619 thousands. Under such circumstances it becomes all the more important to set up such a committee. There has been a strong demand for the revival of this Committee by certain members of Parliament. Shri N. R. Muniswamy during budget discussion on the budget of 1962-63 said, "we have been agitating for a long time that the Standing Finance Committee which was functioning some years back should be revived. It has been abolished because there had been some sort of an adverse comment that the existence of such a Committee was not necessary. It is better that we now take

[25] 20th Report of Estimates Committee, p. 25

up some courage and revive the Standing Finance Committee. That will keep each of these items before its eyes, namely, the items which are included in the budget estimate. If there is a Standing Finance Committee, it will certainly go through all the items and would certify whether each item is worth including in the budget estimates or not. Therefore, it is better, we revive the Standing Finance Committee".[26]

When the Standing Finance Committee was in existence, it consisted of a majority of elected members with the Finance Minister as its Chairman. It used to scrutinise fresh proposals for expenditure before they were presented for the consideration of the Legislative Assembly. It was simply to examine the expenditure estimates and had nothing to do with taxation proposals. If the Committee is to be revived, its constitution should be different from that of the past. All the members should be elected in the same way as are elected for Public Accounts Committee or Estimates Committee. The Chairman should be from its members nominated by the Speaker. The Finance Minister should not be made the Chairman. However, some senior official of the Finance Ministry should help in the work of the Committee. With the revival of the Standing Finance Committee, the examination of new schemes would be done carefully, and Parliament will have control over the estimates for those works. Thus the revival of the Standing Finance Committee will make the Parliamentary control over budget more effective.

[26] L. S. Debates vol. LXI, No. 9 Col. 1571

CHAPTER VII

BUDGETS OF THE INDIAN UNION

"Budgets should be viewed in the perspective of what the country has to do and what it has to achieve."

Jawaharlal Nehru

IN THE pre-Independence period, the Britishers were presenting before the Assemblies and Legislative Councils, different financial statements euphemistically called 'budgets'. The purpose of these so called budgets was not to promote welfare of the country and were not designed to promote savings or investments in the country. These budgets ignored economic, political and social interests of the country. The Britishers formed the budget with greed as their motive and the sky as the limit for sucking the poor starving millions of India in order to spend freely on their administration, their allied services and for maintaining law and order in the country.

After independence, we have turned a new leaf in the field of budgeting. In the early years of Independence, the economy of the country was suffering from the strains of World War II. Problems like civil disturbances in the Punjab and Bengal, the aggression and fighting in Kashmir, the Hyderabad Police Action, and the general economic upset confronted the Government. These problems diverted the attention of the Government from making any improvement in the economy of the country, because, they were difficult, grave and unprecedented in their nature and intensity. The problems were tackled with determination and vigour and the situation improved to some extent. The Government got their feet planted firmly and normal conditions were restored.

In 1950 a fresh epoch commenced in the history of our country. A new Republic was born. Thus the end of our political struggle was achieved. Then came the task of achieving economic freedom and of raising the standard of living of the people. For this, the country adopted economic planning. Our journey towards economic freedom started with the launching of the First Five Year Plan. Therefore, the period starting from 1951

is very important, because after the return of the normal conditions, the country began to follow the path of planned economic development. Under its impact, the Government decided to raise the status of the people economically and socially and to take the country towards the 'Democratic Socialism based on Parliamentary System'. The budgets of the Government, after 1951 were directed to the fulfilment of this end and to provide money for the development of the country. Budgets cannot be separated from economic plans. They are a sort of economic complement to the plan. Budget provides structure in which plan projects are set. It is the plan which furnishes the blue print, a sort of layout of how economic development has to be planned and how the superstructure has to be erected. The prime purpose of a budget is to supply all the materials — brick and morter — for erecting the superstructure. In a developing economy, there are certain objectives—economic and social—and these objectives have to be achieved in an intelligent, logical and coherent fashion. Budgets indicate the way of achieving these objectives. Let us examine here, how far the budgets of the Government of India for the period 1950-51 to 1964-65 have been successful in achieving the objectives set up by the people.

Magnitude of Budgets

The economic planning adopted in India has changed the character of the Indian budgets. They have grown bigger and bigger. The following figures (p. 190) indicate the growth in the size of Indian budgets and their share in the national income.

During the period from 1950-51 to 1964-65, the size of the revenue and capital budgets of the Government of India has grown nearly seven times. Though the revenue budget has increased nearly five times, the size of the capital budget has gone up nearly eleven times. This indicates that the Government have spent lot of money on capital projects. There has been growing importance of the public sector. The Government's activities in the national development have increased tremendously. Central Government's share in the national income too has increased during this period. The share of the Government of India in the national income was 6.2 per cent in 1950-51. In 1961-62 this share rose to 16.17 per cent. During

(*In Crores of Rupees*)

Year	*Size of Revenue Budget*	*Capital Budget*	*Total*	*National Income (at current prices)*		*Per cent*
1950-51	(Acctt.)	410.66	182.59	593.25	9530	6.2
1951-52	"	515.37	293.43	808.80	9970	8.0
1952-53	"	435.10	164.01	599.11	9820	6.1
1953-54	"	415.98	307.86	723.84	10480	6.9
1954 55	"	501.67	461.84	963.51	9610	10.02
1955-56	"	504.32	470.92	975.24	9980	9.8
1956-57	"	589.96	616.78	1206.74	11310	10.7
1957-58	"	725.80	874.18	1599.98	11390	14.04
1958-59	"	763.14	850.54	1613.68	12600	12.8
1959-60	"	870.43	870.43	1740.86	12950	13.4
1960-61	"	971.67	1020.78	1992.45	14160	13.3
1961-62	"	1136.73	1229.83	2366.56	14630	16.17
1962-63	"	1585.29	1479.03	3064.32	N.A.	—
1963-64	(Rev.)	1913.68	1850.07	3763.75	N.A.	—
1964-65	(Bud.)	2135.39	2061.35	4196.74	N.A.	—

this period the national income has risen by 53.5 per cent at the current price level. The Central Government have taken a substantial portion of the increase in the national income. This clearly indicates that the Government have played a leading role in India's economic development. This is a healthy sign specially in a country like India marching on the road of democratic socialism.

Over-all Budgetary Position

The revenue and expenditure on revenue and capital account of the Government of India are as follows :

During the period 1950-51 to 1964-65, the Union revenues have risen by Rs. 1724.73 crores. The revenues for the year 1964-65 is expected to be nearly five times of that of 1950-51. There has been marked increase in the revenues during the last three years. This is due to (*i*) Governmental efforts to increase revenues by increasing tax rates in order to meet emergency situation, and (*ii*) strict measures adopted in tax collection. Total revenues of these years amounted to Rs. 13,424.42 crores. Similarly expenditure has risen by Rs. 1,689.87 crores during this period. The expenditures for the year 1964-65 is expected to be nearly six times of that of 1950-51. The total expenditure

(In Crores of Rupees)

Year		*Revenue*	*Expenditure*	*Deficit or Surplus*	*Capital Receipts*	*Capital Disbursements*	*Surplus or deficit*	*Net position.*
1950-51	(Acctt.)	410.66	351.44	59.22	104.45	182.59	- 78.14	- 18.92
1951-52	,,	515.37	387.27	128.10	212.73	293.43	- 80.70	+47.40
1952-53	,,	435.11	396.18	38.93	68.82	164.01	- 95.19	- 56.26
1953-54	,,	415.98	407.48	8.50	218.36	307.86	- 89.56	- 81.06
1954-55	,,	456.13	422.62	33.51	242.72	461.84	-219.12	-185.61
1955-56	,,	504.33	463.87	40.46	280.95	470.92	-189.97	-149.51
1956-57	,,	589.96	500.56	89.40	302.75	616.78	-314.03	-224.63
1957-58	,,	725.80	683.75	42.05	290.00	835.45	-545.45	-503.40
1958-59	,,	757.89	763.14	- 5.25	590.53	813.20	-222.67	-227.92
1959-60	,,	870.43	827.88	42.55	757.92	858.24	-200.32	-157.77
1960-61	,,	971.67	920.42	51.25	945.08	1020.78	- 75.70	- 24.45
1961-62	,,	1136.73	1011.88	124.85	1109.16	1229.83	-120.67	+ 4.18
1962-63	,,	1585.29	1471.89	113.40	1384.06	1479.03	- 94.97	+18.43
1963-64	(Rev.)	1913.68	1825.34	88.34	1744.12	1850.07	-105.95	- 17.61
1964-65	(Bud.)	2135.39	3041.31	94.08	2007.68	2061.35	- 53.67	+40.41

during this period amounted to Rs. 12,475.03 crores. With the exception of 1958-59 year, revenue budgets have shown surpluses. The total surplus during this period amounted to Rs. 949.39 crores.

On the capital account, there has been enormous increase in the amounts of capital receipts as well as disbursements. During this period of 15 years, capital receipts increased by Rs. 1,903.23 crores and capital disbursements by Rs. 1,878.76 crores. The capital receipts have multiplied nearly twenty times, while capital disbursement nearly twelve times. In all these years, capital budgets have shown deficits. This is due to the fact that most of the expenditure of the Government on development schemes was of capital nature. There has been marked increase in the capital budget after the emergency. This is due to huge capital expenditure on defence of the country. The total deficit on capital account during this period amounted to Rs. 2,486.11 crores. Taking into account the over-all position of revenue and capital budgets, there was a deficit of Rs. 1,536.72 crores during these fifteen years. The position with regard to revenue budget has been better all through. By the study of the above figures it can be found out that the surpluses of revenue budget have helped in financing a part of capital expendi-

ture. The continuous deficits have also affected the cash balance position of the Government of India, which for the priod is as given below :

(In Crores of Rupees)

Year	*Opening Balance*	*Closing Balance*
1950-51	149.50	161.94
1951-52	161.78	162.68
1952-53	162.68	99.14
1953-54	99.14	37.85*
1954-55	37.49	32.01*
1955-56	32.23	-4.65
1956-57	-4.65	50.96
1957-58	50.96	52.11
1958-59	52.11	34.87
1959-60	34.87	69.67
1960-61	69.67	45.22
1961-62	45.22	49.40
1962-63	49.40	67.83
1963-64	67.83	50.21 (Rev.)
1964-65	50.21	50.35 (Bud.)

NOTE : * The opening balance do not agree with the closing balance of previous years due to certain revisions of accounts figures carried on later.

The Government of India's statement (p. 214) of ways and means position indicates that greater reliance has been placed on small savings, treasury bills and other loans.

REVENUE AND EXPENDITURE OF THE GOVERNMENT OF INDIA

The statement (p. 215) shows revenue and expenditure of the Government of India for the period 1951-52 to 1964-65.

The statement of Revenue and Expenditure of the Government of India, shows that the gross tax revenue of the Central Government in 1951-52 was Rs. 512.85 crores. In the following two years, revenues continuously decreased. The revenues for the year 1953-54 were Rs. 420.59 crores which were Rs. 92.26 crores less than that of 1951-52. The year 1951-52 was the last

(*In Crores of Rupees*)

Year	*Loans*	*Small Savings*	*Treasury Bill*
1953-54	123.04	37.81	19.66
1954-55	161.92	55.16	136.92
1955-56	126.71	66.55	123.38
1956-57	168.58	59.01	240.45
1957-58	168.69	69.45	459.43
1958-59	699.24	78.21	-69.80
1959-60	638.35	82.87	72.28
1960-61	515.47	103.76	-191.31
1961-62	574.01	87.83	68.69
1962-63	679.58	74.11	124.56
1963-64 (Rev.)	995.24	115.00	60.00
1964-65 (Bud.)	1000.98	125.00	176.00

year when the effect of the boom period caused by the Second World War and post-War shortage economy came to an end. Since then a slight depression set in the economy of the country. After this year, the economy got momentum. From the year 1953-54, revenues began to rise gradually, and in the year 1956-57 the revenues were Rs. 573.13 crores which were Rs. 60.28 crores more than that of 1951-52. From this year the economy gained strength. Since then, there is continuous rise in the revenues of the Government. There is a marked increase in the revenues from the year 1961-62. The budget estimates for the year 1964-65 for revenue are Rs. 1,662.51 crores, nearly three times of that of 1951-52.

The percentage of taxes to national income is as follows :

(*In Crores of Rupees*)

Year	*National Income*	*Central Taxes*	%	*States' Taxes*	*Total %*
1951-52	9970	512.85	5.14	232.53	7.5
1960-61	14160	908.92	6.4	420.29	9.36
1961-62	14630	1053.75	7.2	484.00	10.5
1964-65	15180[1]	1662.51	10.9	600.00	14.9

[1] Taking 2 per cent annual increase every year.

The percentage of Central taxes to national income was 5.14 per cent in the year 1951-52. This has increased to nearly 10.9 per cent in the year 1964-65. If we take into account the taxes levied by the States also, the percentage for the year 1951-52 was 7.5 per cent. This increased to 9.36 in the year 1960-61. In the year 1964-65 the percentage of total taxation to national income will become nearly 14.9 per cent. The increase in the percentage is heavy since emergency. Though the percentage of taxation to national income has increased, still, as compared to other countries, it is very low. In certain countries the percentages of taxation to national income in the year 1954-55 were :

Country	*Percentage*
Burma	15.0
Ceylon	17.7
Japan	15.3
Canada	17.3
U.S.A.	20.7
U.K.	31

(From *U. N. Statistical Year Book*)

The percentage of taxation to national income was very low in India in that year. It will take some time for the percentage of taxation to national income to reach a reasonable limit of about 20 per cent. This has to be achieved gradually. The Finance Minister, in his budget speech in the year 1957-58 said, "Indeed I feel confident that over a period they will help us in getting out of the stagnancy of public revenues relatively to national income which is a bottleneck from the point of view of further developmental planning. The ratio of public revenues to taxation in India is low, even by the standard of relatively underdeveloped countries. The way to raise it is to initiate structural changes in the tax system so as to make it more progressive in terms of returns".

The Government has carried out structural changes in taxes on income, duty on cloth and several others. The increase in taxation will be beneficial to the economy of the country, as it will create conditions necessary for economic development. The activities of the public sector will grow only if taxation revenues

increases. The Finance Minister made this point clear while presenting the budget for 1962-63. He said, "Higher levels of taxation no doubt impose a burden of sacrifice on our people. The point to remember is that there are only two alternatives to such taxation, inflation or stagnation. Without the requisite tax effort we would have to face either an upsurge of prices which would impose a much bigger and much less equitable burden on the community or a prolongation of our poverty due to a slowing down of our development". The emergency caused by Chinese and Pakistani invasion has created an atmosphere in which taxation burden can readily be shouldered by the people. In the coming decade taxation revenue will increase at a faster rate and its ratio to national income will also increase. What is needed is that the taxation should stimulate economic growth. The Finance Minister while presenting budget for the year 1964-65 stated that, "The existing taxation policy, good as far as it goes in the direction of producing revenue, has also to be geared to the paramount task of promoting growth. It is admitted on all hands that the fiscal measures have a major role to play in the process of economic development". Through taxation measures tempo of development should be accelerated.

As two of our neighbours, China and Pakistan have adopted hostile attitude towards India and have forcibly occupied a large part of Indian territory, it has become necessary to strengthen our defence forces. This calls for added expenditure on defence. Defence expenditure during these years has been as given below :

DEFENCE EXPENDITURE

(In lakhs of Rupees)

Year	*Revenue*	*Capital*	*Total*
1953-54	186.30	10.16	196.46
1954-55	186.66	8.47	195.13
1955-56	172.28	17.59	189.87
1956-57	192.15	19.70	211.85
1957-58	256.72	22.93	279.65
1958-59	250.93	27.88	278.81
1959-60	230.86	36.11	266.97
1960-61	247.55	33.39	280.94
1961-62	289.54	22.95	312.49
1962-63	425.30	48.61	473.91
1963-64 (Rev.)	692.55	115.63	808.18
1964-65 (Bud.)	717.80	136.10	853.90

The defence expenditure, capital as well as revenue, has shot up during the last two years.

Details of tax revenue

The details of tax revenue of the Government of India are :

STATEMENT SHOWING DETAILS OF TAX REVENUE

(In lakhs of Rupees)

Year	Net revenue from (after deduction of cost of collection)									
	Customs	*Union excise Duties*	*Taxes on Income and Corporation Tax*	*Estate Duty*	*Taxes on Wealth*	*Expenditure Tax*	*Taxes on Railway Passenger Fares*	*Gift Tax*	*Other Tax Revenue*	*Total*
1951-52	2,29,89	79,23	1,84,90	..		..	..	..	5,95	4,99,97
1952-53	1,71,57	78,56	1,82,19	..	..	..	..	..	69	4,33,01
1953-54	1,55,91	91,67	1,61,15	..	..	..	..	..	1,17	4,09,90
1954-55	1,82,20	1,04,54	1,56,14	81	..	..	..	..	76	4,44,45
1955-56	1,62,98	1,42,21	1,64,60	1,81	..	..	..	..	97	4,72,57
1956-57	1,70,42	1,85,33	1,98,66	2,11	..	..	..	..	2,16	5,58,68
1957-58	1,76,92	2,68,01	2,15,19	2,30	7,04	..	3,68	..	6,08	6,79,22
1958-59	1,34,86	3,07,30	2,21,32	2,70	9,66	64	12,18	98	6,04	6,95,68
1959-60	1,52,54	3,54,47	2,50,08	2,91	12,11	79	12,72	80	5,03	7,91,45
1960-61	1,66,42	4,09,43	2,72,17	3,09	8,15	91	15,78	89	9,65	8,86,49
1961-62	2,08,69	4,81,86	3,15,80	4,21	8,26	84	..	1,01	11,93	10,32,59
1962-63	2,41,77	5,90,51	4,00,88	3,93	9,54	20	..	97	13,78	12,61,58
1963-64(Rev.)	3,15,85	6,94,70	5,03,36	4,26	9,75	16	..	1,08	16,72	15,45,88
1964-65(Bud.)	3,25,36	7,41,32	5,37,50	4,30	9,73	5	..	1,07	17,84	16,37,17

The above statement indicates that the tax revenues are mainly derived from three heads; i. e. Customs, Union Excise and Income-Tax including Corporation Tax. These together accounted for 98.8 per cent of the total tax revenue in 1951-52. The percentage for the year 1964-65 is expected to remain nearly 98 per cent, almost the same. The revenue from Customs was Rs. 229.89 crores in the year 1951-52. This was partly due to

Korean War which gave a chance to export more. In that year revenue from Customs was a major source of Government revenue. Customs brought 45.9 per cent of the total tax revenue in 1951-52. From that year, the importance of customs has gone down as a source of revenue. Not only the percentage, but also the magnitude fell continuously upto 1960-61. However there was some rise in the last two or three years. While revenue from all other taxes show an increasing trend, the trend with custom revenue was just the reverse till 1961-62. This was due to the fact that the country's share in the international trade has been reduced. Besides, imports of goods which were of interest to indigenous industry or the national economy were allowed free import or on subject to a very low rate of duty. On the other hand, in order to increase export, very few commodities have been subjected to export duties. Under the circumstances, it was natural that revenues from the source would fall. Since the emergency Government is trying its best to enhance its export to foreign countries, and its efforts have met with success upto some extent, there has been an increase in revenue from customs. The estimated revenue from customs for the year 1964-65 is Rs. 325.36 crores. This is nearly 50 per cent higher than that of 1951-52. This is nearly 20 per cent of the total tax revenue for that year. Thus during a period of fifteen years the revenue derived from customs has reduced from 45.9 per cent to nearly 20 per cent, though the amount has increased by nearly 50 per cent.

The most striking feature of the tax revenue of the Government of India is the phenomenal rise in Union Excise Duties as a source of revenue. From Rs. 79.23 crores in 1951-52 the revenue has risen to Rs. 741.32 crores for the year 1964-65, a rise of nearly ten times. In the year 1951-52, the Union Excise Duties accounted for about 16 per cent of the total tax revenue of the Government. In the year 1964-65 the percentage went as high as 45.3 per cent. To a very large extent, this rise reflects the growth of industrial production. There has also been an increase in the rates of excise duties. With the advancement and diversification of the industrial economy of the country, Excise Duties are bound to become the most important single source of revenue to the Government of India.

As regards income-tax and corporation tax, there has not been so much increase as has been in the case of excise duties. In 1951-52, this source produced 184.90 crores of rupees which was 36.9 per cent of the total tax revenue of the Government of India. The amount for 1964-65 under this source of revenue is estimated at Rs. 537.50 crores which is 32.8 per cent of total tax revenue. It means that the share of income-tax and corporation tax in the total tax revenue has reduced in terms of proportion, though the actual amount has trebled during this period. Taking 1950-51 as the base, the index numbers of certain sources of revenue for 1964-65 are:

(1)	Customs	208.37
(2)	Union Excise	1139.3[illegible]
(3)	Corporation Tax	755.84
(4)	Income-Tax	188.[illegible]6
(5)	Estate Duty, Wealth Tax, Expenditure Tax, (1955-56 as base)	229.3

STATES SHARE IN TAX REVENUE

The following statement shows States share in the taxation revenue transferred to states:

SHARE OF STATES IN TAX REVENUE

(In Lakhs of Rupees)

Year	*Union Excise Duties*	*Income-Tax*	*Estate Duty*	*Taxes on Rly. Pass. fares*	*Total*
1951-52	—	5286	—	—	5286
1952-53	1683	5698	—	—	7381
1953-54	1555	5729	—	—	7284
1954-55	1511	5595	57	—	7163
1955-56	1657	5516	187	—	7360
1956-57	1822	5875	241	—	7938
1957-58	4022	7343	240	441	12046
1958-59	7299	7580	238	1089	16206
1959-60	7470	7932	276	1307	16985
1960-61	7510	8698	291	1379	17878
1961-62	8065	9385	388	—	17838
1962-63	12491	9527	388	—	22406
1963-64 (Rev.)	13599	11929	422	—	25950
1964-65 (Bud.)	14098	10845	427	—	25370

The share of States in Union Excise, Income-tax, Corporation tax, Estate Duty and taxes on Railway Passenger fare was Rs. 52.86 crores in 1951-52. This was 10.6 per cent of the total tax revenue of the Central Government. The same for the year 1964-65 is Rs. 253.7 crores which means Rs. 200.84 crores more than what it was in 1951-52. The percentage of the share has also gone up and is 15.5 per cent for the year 1964-65. It means that the States' share in these taxes has increased in size as well as in proportion. This is due to meagre resources of the State Government and heavy developmental expenditure incurred by them. For the period 1951-52 to 1964-65 the total revenue from the taxes to be shared with the States amounted to Rs. 8,315.51 crores of which an amount of Rs. 1,927.91 crores was given to the States. This was 23.2 per cent.

The revenue from taxes included under the head 'Other Tax Revenue' has been very irregular. In some years the returns are very meagre. For example, in 1952-53, the revenue under this head was Rs. 69 lakhs, which was .16 per cent of the total tax revenue, while in the year 1964-65 it is expected to yield Rs. 1,784 lakhs which is nearly 1 per cent of the total tax revenue.

PROPORTION OF TAX AND NON-TAX REVENUE

(In Crores of Rupees)

Year	*Tax revenue*	*Non-tax revenue*	*Total*
1951-52	443.71	88.71	532.42
	(83%)	(17%)	(100%)
1955-56	394.47	125.85	520.32
	(76%)	(24%)	(100%)
1960-61	703.61	273.50	977.11
	(72%)	(28%)	(100%)
1964-65 (Bud.)	1379.37	528.00	1907.37
	(72%)	(28%)	(100%)

Nearly three-fourth revenue is derived from taxes while only one-fourth revenue comes from non-tax sources, there is need of augmenting non-tax sources of revenue.

GROSS REVENUE AND COST OF COLLECTION

(In Crores of Rupees)

Year	*Gross revenue*	*Cost of collection*	*Net Revenue*
1951-52	512.85	12.88	499.97
1952-53	444.03	11.02	433.01
1953-54	420.59	10.69	409.90
1954-55	455.78	11.33	444.45
1955-56	485.07	12.50	472.57
1956-57	573.13	14.45	558.68
1957-58	695.77	16.55	679.22
1958-59	715.12	19.44	695.68
1959-60	812.28	20.83	791.45
1960-61	908.92	22.43	886.49
1961-62	1053.75	21.16	1032.59
1962-63	1285.04	23.46	1262.58
1963-64 (Rev.)	1569.55	23.67	1545.88
1964-65 (Bud.)	1662.51	25.34	1637.17

The above statement shows the gross tax revenue collected and the cost of collection thereof. The gross revenue for the year 1951-52 was 512.85 crores of rupees and its cost of collection was Rs. 12.88 crores which was about 2.5 per cent of the gross revenue. The gross revenue for the year 1964-65 is estimated at Rs. 1,662.51 crores and the cost of collection at Rs. 25.34 crores which is nearly 1.5 per cent.

TRENDS OF GOVERNMENT EXPENDITURE

The total expenditure of the Government of India in 1951-52 was Rs. 404.33 crores as shown in the statement of Distribution of Revenue and Expenditure. It has gone upto Rs. 1,853.56 crores as per the estimates of the budget for 1964-65, showing an increase of Rs. 1,449.23 crores. The expenditure has increased nearly 4.5 times. Interest on debt was Rs. 69.59 crores in 1951-52, 17.2 per cent of the total expenditure. In the budget for the year 1964-65, expenditure under this head has been estimated at Rs. 313.41 crores, about 16.9 per cent of the total expenditure. There is an increase in the amount by Rs. 243.82 crores. This is

due to the increasing amount of public debt taken for defence and development purposes.

As regards defence expenditure (Revenue nature) in 1951-52 it was Rs. 170.96 crores, about 42.3 per cent of the total expenditure. It has risen to Rs. 717.80 crores in 1964-65 (Budget). It has risen nearly four times. Though there has been an increase in the amount spent over defence, yet its percentage to total expenditure has gone down to 38.7. The increase in expenditure is due to hostile attitude of two of our neighbours, China and Pakistan.

The expenditure under the head 'Other Expenditure' was Rs. 147.78 crores. It was 36.5 per cent of the total expenditure. For the year 1964-65, the expenditure under this head is estimated at Rs. 669.83 crores, which is nearly 37 per cent of the total expenditure. The expenditure has become more than four-fold under this head. The expenditure under the Head 'Other Expenditure' includes, expenditure on administrative services, social and developmental services, multi-purpose river schemes, public works, transport and communications, grants to states and miscellaneous items like famine relief, retirement benefit, stationery and printing, opium, forest, etc. The details of other expenditure are given on page 225.

In 1951-52 the expenditure on administrative services was Rs. 24.09 crores, which was 5.9 per cent of the total expenditure of the Central Government. For the year 1964-65, it is estimated that the expenditure under this head will be Rs. 81.84 crores, which is 4.4 per cent of the total estimated expenditure. Though its percentage has reduced, yet the amount has increased by Rs. 57.75 crores. The expenditure under the head 'Social and Development Services' in 1951-52 was Rs. 25.21 crores, 6.2 per cent of the total expenditure. For the year 1964-65, the expenditure under this head is expected to be Rs. 168.14 crores, which comes to 9.9 per cent of the total expenditure. The volume of expenditure under this head has increased more than six times. Increased expenditure on social and development services is necessary for the progress of the country. As more and more development take place, larger administrative services become necessary, and naturally expenditure on administrative services will go up. During this period, the country's expendi-

Year	Administrative Service	Social and Development Services	Multipurpose River Schemes, etc.	Public works	Transport and Communication	Miscellaneous	Contributions and Miscellaneous Adjustments (excluding States share of Excise Duties)		Grand Total
							Grants in aid to States	Other Miscellaneous adjustments	
1951-52	24,09	25,21	10	7,96	4,61	68,50	17,29	2	1,47,78
1952-53	23,30	23,85	26	7,67	4,61	51,41	22,73	7	1,33,90
1953-54	26,74	33,18	19	9,09	4,30	35,71	25,87	4	1,35,12
1954-55	30,62	40,08	26	8,82	4,47	32,91	29,75	4	1,46,95
1955-56	33,57	55,73	61	7,05	4,84	63,45	35,80	7	2,01,12
1956-57	38,06	79,10	56	10,02	5,44	56,31	28,21	5	2,17,75
1957-58	42,00	1,20,95	39	13,13	5,70	78,27	45,85	5	3,06,34
1958-59	48,10	1,39,71	64	12,57	6,45	92,24	46,16	9	3,45,96
1959-60	52,04	1,61,96	81	11,27	12,71	110,95	48,78	16	3,98,68
1960-61	58,66	1,85,20	1,11	16,36	7,13	140,38	48,36	20	4,57,40
1961-62	59,17	1,49,89	1,10	15,26	6,04	78,73	194,99	3,02	5,08,20
1962-63	75,18	1,59,20	1,36	14,40	9,31	104,45	195,03	3,42	5,62,35
1963-64(Rev.)	80,45	1,46,94	1,36	17,55	8,70	91,99	235,70	3,46	5,86,15
1964-65(Bud.)	81,84	1,68,14	1,84	16,11	10,18	98,51	289,08	4,13	6,69,83

ture on administration and development was bound to go up.

During this period, expenditure on Multi-purpose river schemes has increased from Rs. 0.1 crore to Rs. 1.84 crores; on public works from Rs. 7.96 crores to Rs. 16.11 crores; and on Transport and Communication from Rs. 4.61 crores to Rs. 10.18 crores. The growth of expenditure was necessary for providing wheels to development.

Grants to States amounted to Rs. 17.29 crores in 1951-52. In 1964-65 these grants-in-aid have been estimated at Rs. 289.08 crores. During this period, grants-in-aid to States have increased by Rs. 271.79 crores. This phenomenal increase is due to the fact that States were helped a lot in carrying out development schemes. Resources of the States are so limited that a substantial financial help from the Centre is necessary. It is necessary that the States should develop their own sources and should depend less and less on the Central Government for financial help. The Finance Minister in his budget speech on April 23, 1962 indicated this in these words, "It is a matter of concern to me that progress in regard to additional taxation by the States has

been slow and in 1961-62 the States' budgets provided for additional taxation with a five year yield of about Rs. 100 crores only as against the target of Rs. 610 crores set in the plan. I would earnestly request all State Governments to ensure that this shortfall is made up with speed and vigour".

The head 'Other Miscellaneous Adjustments' is for the Petroleum, Explosives and Arms Act and the Carbide of Calcium and Cinematograph Film Rules which are administered by the State Governments within their respective areas on behalf of the Government of India and amounts equal to the fees realised under these Acts and Rules are paid to the State Governments to cover the expenditure on the administration of these Acts and Rules. The expenditure under this head has gone up only from the year 1961-62. For the year 1964-65, the estimated expenditure under this head is Rs. 4.13 crores.

Details of Expenditure on Administrative Services

The expenditure under this head relates to administrative and ancillary services and day to day running of the administration at the Centre and in the Union territories, other than on tax collection which is recorded separately. The details are :

DETAIL OF EXPENDITURE ON ADMINISTRATIVE SERVICES

(In Lakhs of Rupees)

Year	*Parliament*	*General Admin.*	*Audit*	*Justice*	*Jails*	*Police*	*External Affairs*	*Supp. & Disp.*	*Misc. Deptt.*	*Tribal areas*	*Total*
1951-52	199	795	401	42	20	380	398	–	–	174	2409
1952-53	172	773	437	17	5	291	419	–	–	216	2330
1953-54	234	862	481	18	4	316	456	–	–	303	2674
1954-55	216	953	532	22	4	410	544	–	–	381	3062
1955-56	210	1060	545	21	4	417	599	–	–	501	3357
1956-57	322	1084	599	26	8	658	691	–	–	418	3806
1957-58	284	1190	647	39	13	781	700	–	–	546	4200
1958-59	300	1321	705	42	14	723	744	–	–	961	4180
1959-60	218	1357	751	45	16	861	891	–	–	1065	5204
1960-61	223	1438	830	52	22	1174	977	–	–	1150	5866
1961-62	–	1922	851	54	22	1876	1192	–	–	—	5917
1962-63	306	1915	909	64	24	2344	1288	315	353	—	7518
1963-64(Rev.)	231	1909	970	52	17	2694	1492	333	347	—	8045
1964-65(Bud.)	242	1951	1059	49	12	2502	1648	353	368	—	8184

According to those details the expenditure on Parliament was Rs. 1.99 crores in 1951-52. It was 8.3 per cent of the total expenditure on 'Administrative Services'. The expenditure under the same head has been estimated at Rs. 2.42 crores. Though the expenditure has increased by Rs. 0.43 crores, the percentage has reduced to 3.

The expenditure on General Administration was Rs. 7.95 crores in 1951-52. It was 33 per cent of the total expenditure on Administrative Services. In 1964-65 budget estimates the expenditure under this head is Rs. 19.51 crores which comes to 24 per cent of the total expenditure on the group.

The expenditure on Audit has increased from Rs. 4.01 crores to Rs. 10.59 crores during this period, but the percentage has come down from 16.5 to 13. The increase in the volume of expenditure on Audit is due to increase in the workloads of the Audit Department consequent upon the growing tempo of development outlays of both the Central and the State Governments.

The expenditure under the head 'External Affairs' is growing every year. The expenditure under this head in 1951-52 was Rs. 3.98 crores, 16.5 per cent of the total expenditure on administrative services. It has gone up to Rs. 16.48 crores in the budget estimates of 1964-65, 20 per cent of the group expenditure. The expenditure on Police has also increased from Rs. 3.8 crores to Rs. 25.02 crores, during this period.

The heavy expenditure on administrative services is sometime criticised in public and Parliament. It is true that Government expenditure in the present day cannot be confined, as in the past, to functions like collection of revenue and maintenance of law and order. The Government has to look to the security of the country and also to promote actively the health and happiness of the people. All this necessitates increase in Governmental expenditure. But there should be one thing assured to the people that they will get best out of administration. People will not grudge and will be prepared to shoulder more taxation-burden, provided efficiency in administration, and avoidance of waste of public money are assured.

Everytime the reports of the Estimates Committee, Public Accounts Committee, Accounts Reports, etc. point out instances of colossal waste and extravagance in Government expenditure.

The Public Accounts Committee in its 20th Report, presented to Parliament on the 3rd March 1964, gave grave and glaring instances of misuse of public funds on the part of several Ministries. Such revelations should have an impact on the administration. Their recommendations should not fall on deaf ears.

Inefficiency in administration and waste of public money breeds corruption and lowers the rate of economic growth. Mr. Morarji Desai while presenting the budget for the year 1963-64 said that, "What we need is more performance with less expenditure of resources in every sphere of public activity;" Mr T. T. Krishnamachari in his budget speech also said, "Economy in administration is fully compatible with efficiency; and it shall be my constant endeavour to ensure that the administrative machinery of the Government is reorganised so that it is fully responsive to this need". Inefficiency and waste of public money in the present emergency cannot be tolerated. It is hoped that the Finance Minister will try his best to do away with these two enemies of efficient and honest administration.

Details of Expenditure on Social and Development Services

The group head 'Social and Development Services' include expenditure on scientific departments, education, medical, public health, agriculture, rural development, animal husbandry, co-operation, industries, broadcasting, community development and N. E. S., labour and employment and miscellaneous social service organisations. The details are on page 229.

The expenditure on scientific departments include expenditure on Archæological Survey of India, Botanical Survey, Geological Survey, Zoological Survey, Meteorology, Atomic Energy Research, Scientific Research, Indian Bureau of Mines and other items. The expenditure on these departments was Rs. 5.18 crores in 1951-52, being 20.5 per cent of the total expenditure on social and developmental services. The volume of expenditure under this head has risen nearly six times in 1964-65. The budget for the year 1964-65 provides an amount of Rs. 31.89 crores, being 19 per cent of the total group expenditure.

Another major item included under this group head is Education. In the year 1951-52 the expenditure under this head amounted to Rs. 4.08 crores, which was 16.2 per cent of the total

(*In lakhs of Rupees*)

Year	*Scientific Departments*	*Education*	*Medical & Public Health*	*Agriculture *etc.*	*Industries*	*Broadcasting*	*Labour & Employment*	*Misc. Social Service Organisation*	*Total*
1951-52	518	408	231	259	526	195	—	384	2521
1952-53	624	332	141	253	46[illegible]	192	—	376	2385
1953-54	680	430	161	269	11[illegible]8	209	—	421	3318
1954-55	760	943	274	365	1067	226	—	373	4008
1955-56	892	1423	382	744	1275	268	—	589	5573
1956-57	1133	1944	652	961	1[illegible]84	318	—	918	7910
1957-58	1323	2098	1321	1327	4[illegible]85	345	—	1096	12095
1958-59	1644	2789	1341	1626	4309	391	—	1371	13971
1959-60	1972	3667	1474	1937	5184	420	—	1540	16196
1960-61	2136	4382	1368	2015	6196	432	—	1989	18520
1961-62	2300	2601	991	1290	4872	439	480	2015	14989
1962-63	2714	2824	1033	1469	5644	527	532	1175	15918
1963-64 (Rev.)	2991	3038	1173	1360	3729	502	664	1254	14694
1964-65 (Bud.)	3189	4095	1321	1732	3824	551	719	1381	16814

*Includes, Rural Development, Animal Husbandry, Co-operation, Community Development & N .E. S.

expenditure on this group head. The expenditure on education has continuously increased upto 1960-61 reaching an amount of Rs. 43.82 crores. There was sudden fall in the expenditure under this head in the year 1961-62, when it came down to Rs. 26.01 crores. Since then it is gradually increasing. According to the budget estimates for the year 1964-65, an amount of Rs. 40.95 crores, being 24.3 of the total group head expenditure, is proposed to be spent. In coming years, more and more funds will be spent on education, as it forms the backbone of democracy.

Putting together the expenditure on Scientific Departments and Education the total expenditure for 1951-52 was Rs. 9.26 crores. This was 36.7 per cent of the total expenditure under the group head of 'Social and Developmental Services'. In the year 1964-65 an amount of Rs. 72.84 crores, being 43.4 per cent is proposed to be spent, on these.

The expenditure under the heads Medical and Public Health was Rs. 2.31 crores in 1951-52, being 9.2 per cent of the total expenditure under the group head, 'Social and Development Services.' The expenditure has risen to Rs. 13.21 crores in the budget of 1964-65, being nearly 8 per cent of the expenditure on the group head.

The expenditure on the heads affecting rural population, viz. Agriculture, Rural Development, Animal Husbandry, Co-operation, and Community Development for the year 1951-52 was Rs. 2.59 crores, being 10.2 per cent of the total expenditure on the group head 'Social and Development Services' and 0.6 per cent of the total Government expenditure. The expenditure on these heads for 1964-65, as budgeted, is Rs. 17.32 crores, being 10.3 of the total expenditure on the group head and 0.9 per cent of the total Governmental expenditure. The expenditure on heads which directly affect the rural population is very much less than what it ought to be. India is a country of villages and its seventy-five per cent population lives in villages. The main occupation of these people is agriculture. On a socialistic basis, the whole budget should reflect that it is a budget for the rural population, whose betterment is the betterment and progress of the country.

Another important head of expenditure under this group head is Industries. The expenditure on Industries in 1951-52 was Rs. 5.26 crores which was 20.8 per cent of the total expenditure of this group head. There has been marked increase in the expenditure on Industries from the year 1957-58. This was due to greater emphasis placed on industrialisation in the Second Five Year Plan. From the year 1961-62 the expenditure again declined. The budget estimates for the year 1964-65 provide for an expenditure of Rs. 38.24 crores under this head, which is 22.8 per cent of the expenditure under group head.

CAPITAL FORMATION

According to Prof. Simon Kuznets of Harvard University, "Capital formation is essential to economic productivity and economic growth".[1] One of the main hurdles in the ecnomic growth of

[1] 'Capital in the American Economy', A study of N.B.E.R.

underdeveloped countries is the low rate of capital formation. Due to shortage of capital, big schemes of development cannot be undertaken. The private capital cannot be allowed free hand as it will exploit the poor people, which is against the principle of democratic socialism. In a developing country like India marching on the path or democratic socialism where there is shortage of capital, capital formation in the public sector is essential for the healthy growth of the economy. This will avoid evils of private capital. The net capital formation out of the budgetary resources of the Central Government has been as follows:

(In Crores of Rupees)

	First Plan 1951-56	*Second Plan* 1956-61	1961-62	1962-63	*(Rev.)* 1963-64	*(Bud.)* 1964-65
Net Capital formation by the Central Govt.	410.4	1088.8	287.5	369	505	530
Financial Assistance for net capital formation.	985.9	2462.4	619.3	746	978	1022
Total	1396.3	3470.7	906.8	1115	1483	1552

The above statement indicates that there has been great stimulation to capital formation in the public sector. The capital formation out of the budgetary resources of the Government of India was Rs. 98.5 crores in 1950-51. The figure has risen to Rs. 1,522 crores in 1964-65.

The Central Statistical Organization has estimated net capital formation in the country. The estimates which have been made at current prices, are as follows :

(In Crores of Rupees)

Year	*Net Capital formation*	*National Income*	*Per cent of Capital formation to N.I.*
1948-49	469	8650	5.4
1949-50	481	9010	5.3
1950-51	480	9530	5.0
1951-52	791	9970	7.9
1952-53	443	9820	4.5
1953-54	761	10480	7.3
1954-55	779	9610	8.1
1955-56	986	9980	9.9
1956-57	1662	11310	14.7
1957-58	1267	11390	11.1
1958-59	1680	12600	13.3
1959-60	1663	12940	12.9
1960-61	1959	14200	13.8

In the year 1948-49, the country had a very low rate of capital formation. It was only 5.4 per cent of the national income. The problem then was to step up the rate of Capital formation. The rate has risen to nearly 14 per cent in 1960-61. In bringing about this step-up in the rate of Capital formation, the role of the Government has been of strategic importance. The current level of capital formation is about 14 per cent. It compares favourably with the advanced countries. With the growth of the volume of national income, volume of capital will also increase. It may take a few years so as to bring stability in this ratio. It is expected that after the fourth plan, the ratio will become 20 per cent.

The growth of capital formation has brought about a change in the structure of investment. When capital formation was around 5 per cent, the proportion of the capital going into modern industry, particularly key and basic industries

was insignificant. This was the basic cause of the country's economic stagnation. With the rise in the rate of capital formation, basic and key industries have developed in the country.

An economic classification of the Central Government Budget, being issued since the year 1957-58 indicates the following trend in the Governmental expenditure :

(In Crores of Rupees)

	1955-56 *Acctts.*	1962-63 *Acctts.*	1963-64 *Rev.*	1964-65 *Bud.*
Consumption Expenditure	285	683	1921	1079
Gross Capital Formation	167	446	579	608
Final outlays	452	1129	1600	1687
Transfer Payments :				
Current tiansfers	174	514	561	653
Capital Transfers	46	88	88	103
Total Transfers	220	602	649	756
Financial investments loans, etc.	262	647	774	746
Total Expenditure	934	2378	3023	3189

This shows that the total expenditure which was Rs. 934 crores in 1955-56 has risen to Rs. 3,189 crores, a rise of more than three times. The consumption expenditure of the Government has increased from Rs. 285 crores to Rs. 1,079 crores over a period of 10 years. The capital formation has also increased from Rs. 167 crores to Rs. 608 crores over this period. The transfer payments, current and capital both, have increased from Rs. 220 crores to Rs. 756 crores over the decade 1955-56 to 1964-65. Financial investments have increased from Rs. 262 crores to Rs. 746 crores over this period. This shows that the expenditure of the Government has increased both in the direction of consumption as well as investment and transfers. This

indicates the increasing role of the Government in the economic affairs of the nation.

Debt position of the Government of India

In a developing country like India, where taxable capacity of the people is very low, the public debt provides an alternative source for financing development finance. The debt position of the Government of India is as follows :

DEBT POSITION OF CENTRAL GOVERNMENT

(In Crores of Rupees)

	As on 31st March		
	1965 (*B.E.*)	1964 (*R.E.*)	1951 (*R.E.*)
Debt raised in India (total)	5,069	4,785	2,031
Of which :			
Current loans	3,222	3,114	1,438
Treasury bills ..	1,536	1,360	373
Special floating loans	281	281	213
Expired loans ..	30	30	7
Debt raised outside India (total)	2,439	1,809	58
Total	7,508	6,594	2,089
Other liabilities	2,483	2,335	689
British war loan	–21	–21	–32
Grand total of public debt	9,970	8,907	2,746
Of which :			
Covered debt	9,303	8,224	2,195
Uncovered debt ..	667	683	551
Interest-bearing obligations (total)	9,658	8,597	2,562
Of which :			
In India	7,240	6,809	2,501
Outside India	2,418	1,788	61
Interest-yielding assets	8,605	7,589	1,681
Cash and securities held on Treasury account	52	52	142
Balance of total interest-bearing obligations not covered by above assets	1,001	956	739
Breakdown of interest-bearing obligations in India :			
Public debt	4,758	4,474	1,812
Unfunded debt	2,218	2,113	450
Deposits	264	222	239

The internal public debt of the Government of India has risen quite significantly. It was Rs. 2,031 crores in 1950-51. It is expected that by the end of March 1965 it will come to Rs. 5,069 crores. The external debt which was Rs. 58 crores in 1950-51 has grown to 2,439 crores of rupees as per the budget estimates for the year 1964-65. The total public debt has risen from Rs. 2,089 crores in 1950-51 to Rs. 7,508 crores as per the estimates of budget of 1964-65. This is nearly four-fold increase. The interest payable on this debt is as follows :

(In Crores of Rupees)

	1964-65 (*B.E.*)	1963-64 (*R.E.*)	1950-51 (*Actual*)
Total interest payments	313.41	277.06	64.73
Of which :			
on internal debt	154.89	140.01	45.37
on external debt	76.56	59.34	nil
on unfunded debt	71.13	68.52	15.73
on reserve funds, etc.	9.01	7.37	
on other obligations	1.82	1.82	3.63

The interest payments which were Rs. 64.73 crores have been estimated to increase in 1964-65 to Rs. 313.41 crores, of which Rs. 154.89 crores are for internal debt and Rs. 76.56 crores for external debt. The increase in the external debt is attributed to the significant expansion in the external assistance received in the form of loans.

Transfer of Resources from Centre to States

In a country like India, which is a Union of a number of States, financial resources are transferred from the Centre to the States. This is a salient feature of the federal finance in India. The financial resources of the States are very limited, and financial assistance becomes necessary in order to carry out developmental schemes. As per the recommendations of the Finance Commission, States get a share out of the receipts from the

Union Excise Duties, Income-Tax, Estate Duty and taxes on Railway fares. Besides, this share, the States also get grants from the Centre. Loans and advances are also given to the States by the Central Government.

The following statement gives figures of resources transferred to the States :

STATEMENT SHOWING RESOURCES TRANSFERRED FROM CENTRE TO STATES

(In Crores of Rupees)

	1st Plan	2nd Plan	1961-62 *Actuals*	1962-63 *Actuals*	1963-64 *R.E.*	1964-65 *B.E.*
(*i*) Share of Divisible Taxes and Duties	326.74	711.13	178.38	224.06	259.50	253.69
(*ii*) Grants Met from revenue :						
(A) Statutory Grant	104.40	206.54	43.41	68.17	69.18	76.86
(B) Other Grants	143.61	461.39	155.61	132.24	161.44	204.50
(*iii*) Grants met from Capital	23.76	59.06	15.87	18.96	22.45	28.22
(*iv*) Loans	798.53	1410.84	452.42	523.55	626.08	605.80
Total	1412.97	2867.92	847.44	969.80	1142.75	1173.57

Thousands of crores of rupees have been transferred from the Centre to the States in the past few years by way of share in taxes and duties, grants and loans. The total amount transferred during the first three years of the Third Five Year Plan was Rs. 2,959.99 crores, which was more than what was transferred in the whole of the Second Five Year Plan. Another Rs. 1,173.57 are to be added during 1964-65. The unlimited financial help from the Centre to the States results in wasteful expenditure by them. The Public Accounts Committee in its report on the Finance Accounts of the Central Government (1961-62) presented in the Lok Sabha on March 18, 1964 while expressing concern at the delay in repayment of loans by some States pointed out that, "this practice tends to increase not only their debt liability but also lethargy in tapping their own resources". The Committee stated that, "According to the (Finance) Ministry's own admis-

sion, there is wasteful expenditure even in the less developed States and there is a tendency to take advantage of the Centre's anxiety not to let any part of the country remain without development". Under such circumstances, the financial assistance from the Centre should be reduced, and the Centre should directly undertake construction of projects. The States should be encouraged to develop their own resources.

RETURNS ON THE CAPITAL INVESTED IN COMMERCIAL UNDERTAKINGS

The Central Government has invested huge capital in the commercial undertakings. The position with regard to return from them is as follows :

(In Crores of Rupees)

Upto the year	1961-62 *Actuals*	1962-63 *Actuals*	1963-64 *R.E.*	1964-65 *B.E.*
Departmentally run commercial undertakings.	N.A.	2096.85	2373.67	2652.24
Net Profit	N.A.	65.98	69.30	60.22
Percentage of net profit to capital invested	N.A.	3.1	2.9	2.3
Other Government commercial undertakings-Capital invested	638.82	806.47	978.25	1184.43
of which running concerns	400.20	563.01	666.21	780.27
Dividend received	1.35	1.36	2.16	2.32

The profits earned by the departmental undertakings including railways comes to only 2.3 per cent on the capital invested. The rate of profit is gradually declining. As these undertakings are more or less of public utility nature, a low rate of profit can be tolerated, but what about other undertakings where the

return is very very low as compared to capital invested. These huge investments can be justified if these undertakings are run efficiently, so as to yield a reasonable return to the Public Exchequer.

RAILWAY BUDGETING IN INDIA

Railways play an important role in the development of trade and industry of a country. Development of railways and trade and industry is inter-dependent. In India, railways have contributed a lot towards the industrial development of the country. Indian Railways are the greatest nationalised undertaking in the country run by the Central Government, the capital at charge being Rs. 2,389.40 crores according to the estimates of the budget for the year 1964-65.

As the railways are the biggest commercial enterprise of the Government, it was, at several times felt that the finances of Railways should be separated from the General Finances. The question was fully examined by the Ackworth Committee in 1921. The question of separating the railway finance from the general budget was discussed in the Legislative Assembly in 1924 and in the 'Convention' of 1924, it was decided to separate the railway finance from the general budget. In 1925-26, the first railway budget was presented. Under the terms of the Convention of 1924, the Central Exchequer was entitled to receive from the railways a sum equal to 1 per cent of the capital at charge in the penultimate year, plus one-fifth of the surplus profits in that year. This was the fixed contribution from the railways. If after the payment of this fixed contribution, the amount available for transfer to the Railway Reserve exceeded Rs. 3 crores, one-third of that excess amount was to be paid to general finances. The provisions of the Convention of 1924 were modified a little in 1943 and modified provisions continued till 1949. In 1949, a Railway Convention Committee was appointed to review and redefine the relationship between the general and railway finances. The recommendations of the Committee were approved on December 21, 1949. The recommendations of the Committee were incorporated in the Convention of 1949, which came into force from the year 1950-51. According to the Con-

vention of 1949, the separation of the railway finance from the general budget was to continue. It was provided that Railway Undertaking will pay a guaranteed dividend of 4 per cent on the loan capital invested in the undertaking as computed annually to the Public Exchequer. Until 1954-55, railways used to pay to general revenues a consolidated dividend of 4 per cent on the capital at charge other than unremunerative strategic lines. The Railway Convention Resolution 1954, provided for the continuance of the arrangements upto 1959-60. As a result of the Resolution passed by Parliament in April 1959 the arrangement was further extended by another year, i. e. upto March 31, 1961. These arrangements were reviewed by the Railway Convention Committee 1960. Subject to the following modifications, the Committee recommended the continuance of the existing arrangements. The Committee's recommendations were accepted by Parliament.

(*i*) With effect from April 1, 1961, the rate of dividend payable by the Railways to the General Revenues was increased from 4 per cent to 4.25 per cent.

(*ii*) Then no dividend was payable in respect of capital at charge on strategic lines but the Railways bore the losses suffered thereon. It was decided that with effect from April 1, 1961, the annual loss on the working of the strategic lines should be borne by the General Revenues.

(*iii*) Till such time as the N. E. Frontier Railway becomes productive or the next Convention Committee reviews the position, whichever is earlier, the rate of dividend payable on the capital at charge of this railway, other than the strategic portion thereof on which no dividend is payable, should be at the average borrowing rate of the Government. This recommendation will be applicable upto 1966. It has been decided that a Railway Convention will be for five years and this period of five years will coincide with the plan periods.

The Committee also accepted Railway Minister's proposal to abolish the tax on railway fares and merge it with the basic fares with effect from April 1, 1961. The Railways will be paying a fixed contribution of Rs. 12.5 crores per annum during the five year period 1961-62 to 1965-66 representing the average of the actual collection for two years, 1958-59 and 1959-60. This

amount of Rs. 12.5 crores is divisible amongst the States. The share of each state as recommended by the Third Finance Commission is as follows :

State		*Rs. in crores*
State		*Rs. in crores*
Andhra Pradesh		1.11
Assam		0.34
Bihar		1.17
Gujarat		0.68
Kerala		0.23
Madhya Pradesh		1.04
Madras		0 81
Maharashtra		1.35
Mysore		0.56
Orissa		0 22
Punjab		1.01
Rajasthan		0.85
Uttar Pradesh		2.34
West Bengal		0 79
	Total	12.50

In the budget of the year 1963-64 the rate of dividend was enhanced from 4.25 per cent on the capital at charge to 4.5 per cent. In the budget for the year 1964-65, the rate of dividend was increased to 5.75 per cent on fresh capital made available during the budget year and thereafter until the position is reviewed by the Railway Convention Committee in 1965. The Railway Convention Committee 1965 has submitted its report to Parliament on November 29, 1965, and recommended an increase of 1 per cent in the rate of dividend payable by the railway to the general revenue on capital invested upto March 31, 1964 and 0.25 per cent thereafter. In terms of the recommendation the railways will pay 5.5 per cent on capital invested upto March 31, 1964 and 6 per cent on capital invested after that date.

Trends of Railway Finance

The following statement summarises the financial results of the railways :

(In Crores of Rupees)

Heads	1950-51 *Actuals*	1955-56 *Actuals*	1960-61 *Actuals*	1962-63 *Actuals*	1963-64 *R.E.*	1964-65 *B.E.*
1. Capital at charge	827.04	963.98	1520.87	1896.81	2136.40	2389.40
2. Gross Traffic Receipts	263.01	316.29	456.79	566.79	622.22	668.00
3. Working Expenses including :	215.45	265.95	358.24	429.52	473.48	516.82
Ordinary working expenses	180.23	212.95	313.15	362.38	393.34	414.67
Depreciation	30.00	45.00	45.00	67.00	80.00	83.00
4. Net Revenue	47.56	50.34	87.87	123.33	132.78	134.10
5. (i) Dividend to General Revenue	32.51	36.12	55.86	68.76	82.53	90.73
(ii) In lieu of Taxes on Railway fares	—	—	—	12.50	12.50	12.50
6. Profit for the Year	15.05	14.22	32.01	42.07	37.75	30.87
7. Operating Ratio	80%	81.6%	78.4%	75.8%	76.1%	77.4%
8. Ratio of Net Revenue to Capital	5.8%	5.2%	5.8%	6.5%	6.2%	5.6%

The period from 1950-51 has been one of consolidation and rehabilitation, but even more so one of continuous and steady expansion of the railways, in keeping with the surging economic development of the country. The capital at charge stood at Rs. 827.04 crores at the end of 1950-51. The capital at charge increased to Rs. 1,896.81 crores by the end of 1962-63, and is expected to increase to Rs. 2,389.40 crores by the end of 1964-65. The phenomenal increase in the capital at charge is due to large capital expenditure involved in the five year plans, both by way of rehabilitation, addition and improvements for carrying out the very heavy increase in traffic.

An important feature of the railway finance is the continuous rise in the Gross Traffic Receipts. Gross Traffic Receipts which were Rs. 263.04 crores in 1950-51, are expected to be Rs. 668.00 crores in 1964-65. The gross traffic receipts have increased

nearly three times. The details of gross traffic receipts for a few selected years are :

(*In Crores of Rupees*)

	1950-51 *Actuals*	1955-56 *Actuals*	1960-61 *Actuals*	1962-63 *Actuals*	1963-64 *R.E.*	1964-65 *B.E.*
Passenger :						
Upper	13.75	12.85	15.18	20.36	21.55	22.01
Third	84.09	94.86	116.40	148.82	158.48	161.99
Other coaching	16.64	20.87	27.21	32.53	34.80	35.00
Goods	143.01	180.28	286.14	349.52	391.66	432.00

These details show that the receipts from passenger fares have increased from Rs. 97.84 to Rs. 184 crores within a period of 1950-51 to 1964-65. This shows an increase of nearly 100 per cent. Over this period the receipts from upper class passenger fares have increased from Rs. 13.75 crores to Rs. 22.01 crores, a rise of nearly 60 per cent, while those from third class have increased from Rs. 84.09 crores to Rs. 161.99 crores, a rise of 93 per cent. The upper class passenger fares have contributed 14 per cent of the total receipts from passenger fares in 1950-51. The percentage for 1964-65 comes to only 12. There appears to be more chances of getting revenue from upper classes, because taking into account the floor space provided to them, the return is much less as compared to the returns from third class. The receipts from freight on goods have increased from Rs. 143.01 to Rs. 432 crores during this period. The provision for depreciation has increased from Rs. 30 crores in 1950-51 to Rs. 83 crores in 1964-65. Dividend to general revenues which was Rs. 32.51 crores in 1950-51 has increased to Rs. 90.73 crores as per the budget of 1964-65. Operating ratio has come down from 80 per cent to 77.4 per cent. The ratio of net revenue to capital has come down from 5.8 per cent to 5.6 per cent.

POST AND TELEGRAPH BUDGETING

The Post and Telegraph Services constitute the second largest State Undertaking in India run departmentally next only to railways. The capital invested on Post and Telegraph Services

upto 1962-63 is Rs. 173.58 crores and it will go upto Rs. 224.41 crores by the end of 1964-65. Like railways, P. & T. finances are not separated from the general revenues and no separate budget is presented for the Department. The General Budget shows 'net contribution from P. & T.'. Prior to 1960-61, the surplus of the P. & T. Department, after payment of interest on the capital at charge, was merged with the general revenues. A part of the surplus was treated as an outright contribution to General Revenues and the balance retained proforma by the Department on which abatement of interest was allowed. As these arrangement did not allow sufficient scope to the Department for utilising its surplus earnings, it has been decided that with effect from April 1, 1960, P. & T. Department will be placed in the same position as the Railways to meet its growing needs. Accordingly the P. & T. Department now pays, like the railways, a dividend to the General Revenues at the rate in force from time to time for the Railways, on the mean capital at charge during the year. The balance of the surplus, after payment of dividend is retained by the Department for strengthening its reserves, particularly Renewals Reserve. The Post and Telegraph Department has relinquished its claim for any part of its share of the accumulated surpluses of the past, but in calculating the dividend payable to General Revenues, the amount of the capital at charge is, as standing arrangements, reduced by the amount of the accumulated surplus. The revised arrangements will be subject to review after five years.

The financial results of the working of the P. & T. Department for 1950-51 and 1964-65 (budget) years are as follows:

(In Crores of Rupees)

	1950-51	1963-64 *R.E.*	1964-65 *B.E.*
Gross Receipts	36.35	114.00	127.00
Working Expenses	31.22	90.29	114.89
Surplus	5.13	23.71	12.11
Dividend to General Revenues	—	7.31	8.43

The gross receipts which were Rs. 36.35 crores in 1950-51 have risen to Rs. 127.00 crores in the budget estimates of 1964-65. They have become almost four-fold. The working expenses have also increased from Rs. 31.22 crores in 1950-51 to Rs. 114.89 crores in 1964-65, this too is nearly four-fold. The surplus which was Rs. 5.13 crores in 1950-51, has increased to Rs. 12.11 crores in 1964-65. The increase in the gross receipts of the P. & T. Department is partly due to increase in the postal rates which has taken place during the period and partly due to increase in the work of the Department.

A General Review of Indian Economy

Before Independence India was regarded a rich country inhabited by the poor. This was due to the country's backwardness in agriculture and industry. The standard of living and the level of income of the people are very low. Although primarily an agricultural country, India is not able to feed its population. In such circumstances, the national Government adopted economic planning for the economic development of the country. The First Five Year Plan was started in 1950-51 which ended in 1955-56. Immediately the Second Five Year Plan was launched which ended in 1960-61. From the year 1961-62, the Third Five Year Plan has commenced. The Indian budgets have been an instrument in the fulfilment of India's plans. They have helped in changing the static economy into a dynamic one, and a country with awakened people striving for economic development. Since 1950-51, the economy has registered a continuing advance in several directions. The national income, which is regarded as an index of the country's economic conditions, has increased in total and the per-capita national income has also increased significantly. The following table shows, the increase of national income during this period.

During this period, the per capita national income has increased from Rs. 266.5 to Rs. 339.4 at current prices and from Rs. 247.5 to Rs. 300.4 at 1948-49 price level. This shows an increase of about 25 per cent at current prices and about 18 per cent at 1948-49 price level. In the intial stages of planned development, the increase in the national income is bound to be low. Once the economy of the country reaches the 'take-off' stage, there will

(In Crores of Rupees)

Year	Total National Income At Current Prices.	At 1948-49 Prices.	Per Capita National Income. At Current Prices.	At 1948-49 Prices.
1950-51	9530	8850	266.5	247.5
1951-52	9970	9100	274.2	250.3
1952-53	9820	9460	265.4	255.7
1953-54	10480	10030	278.1	266.2
1954-55	9610	10280	250.3	267.8
1955-56	9980	10480	255.0	267.8
1956-57	11310	11000	283.3	275.6
1957-58	11390	10890	279.6	267.3
1958-59	12600	11650	303.0	280.1
1959-60	12950	11860	304.8	279.2
1960-61	14160	12730	325.3	293.7
1961-62	14800	13060	333.6	294.3
1962-63	15400	13370	339.4	294.7
1963-64	N.A.	13940	N.A.	300.4

be rapid increase in the national income.

Progress in the Field of Production

As a result of Government's efforts at developmental planning, the agricultural and industrial productions have registered sizable advance. Taking 1950 as the base year, the index numbers of agricultural production for further years are as on p. 246.

During the period 1950-51 to 1963-64 the production of food grains has increased by about 34 per cent and the production of non-food grains has increased by about 51 per cent. Production of all Agricultural Commodities has increased by about 40 per cent. Taking into account the increase in population, the net availability of cereals per capita has increased from 11.5 oz. per day in 1951 to 13.2 oz. per day in 1963, and the per capita net avail-

Year	Index numbers of		
	Food Grains	*Non-Food Grains*	*All Agr. Commodities*
1950-51	90.5	105.9	95.6
1951-52	91.1	110.5	97.5
1952-53	101.1	103.8	102.0
1953-54	119.1	104.7	114.3
1954-55	114.4	120.4	116.4
1955-56	115.3	119.9	116.8
1956-57	120.8	131.5	124.3
1957-58	109.2	129.5	115.9
1958-59	130.0	139.4	133.5
1959-60	127.9	135.0	130.3
1960-61	135.6	147.9	139.7
1962-63	130.4	151.0	137.2
1963-64	134.9	151.8	140.5

ability of pulses has increased from 2.0 oz. per day in 1951 to 2.1 oz. per day in 1963.

While the agricultural production has increased, the prices of agricultural commodities have also been gradually increasing. This has brought prosperity to the rural population, and also to the merchant community.

There has been remarkable progress in the field of Industrial production. Besides consumption-goods industries, there has been rapid development in the capital goods industries. Some of the newer mechanical and electrical engineering industries have made appreciable progress. The manufacture of capital goods, so far imported from foreign countries like power trans· formers, power driven pumps, electric motors, machine tools, sugar mill machinery, tea processing machinery, industrial boilers, has taken place in the country. The Index of Industrial production for the period is given on page 247.

The increase in the industrial production, during the period 1951-63, has been about 142 per cent. The increase in industrial output was shared by almost all industries, but the most

Year	*Index No.*	
1951	100.0	(Base Year)
1952	103.6	
1953	105.6	
1954	112.9	
1955	122.4	
1956	132.6	
1957	137.3	
1958	139.7	
1959	151.9	
1960	170.3	
1961	180.6	
1962	198.9	
1963	242.1	

marked increases in production was in respect of iron ore, iron and steel, electricity, industrial machinery, sugar, paper and paper-board, rubber products, chemicals, cement and engineering and transport equipments. There has been phenomenal increase in the generation of electricity in public utilities. In 1950, 5,107 million Kwh. electricity was generated and this figure rose to 22,365 million Kwh. in 1962-63.

Prices

The general level of prices in the country had shown a more or less continuous increase during the period 1951-63. The tendency of price level to increase gradually is inevitable in a developing economy. The index numbers of whole-sale prices and working class consumer prices are as on p. 248.

The rise in the price level of 2 to 3 per cent per annum produces healthy effects on the developing economy, as it creates an incentive to the industrialists to produce. The rise in price level is due to shortage of goods on the one hand and more money with the public on the other. For an expansion of economic activity, some increase in money supply is necessary. The money released seeks outlets in consumption goods and domestic durable goods. Though a rise in price level causes

Year	*Index Number of wholesale prices.* (1952-53=100)	*Working Class consumer prices Index No.* (1949=100)
1950-51	—	101
1951-52	—	104
1952-53	100	104
1953-54	104.6	106
1954-55	97.5	99
1955-56	92.5	96
1956-57	105.3	107
1957-58	108.4	112
1958-59	112.9	118
1959-60	117.1	123
1960-61	124.9	124
1961-62	125.1	127
1962-63	127.9	131
1963-64	134.0	139

distress to the consumer specially of the middle class, yet inflationary trend in prices, however, though not a happy development, cannot altogether be avoided in a developing economy, where the generation of monetary incomes resulting from large scale development expenditure generally outstrips supply of consumer goods. The increase in commodity taxation is also responsible for rise in price level. Taxes on commodities which were Rs. 317.47 crores in 1951-52 have risen to Rs. 1,105.91 crores in 1964-65. Only the Union Excise Duties which produced a revenue of Rs. 85.78 crores in 1951-52 have gone up as high as Rs. 769.54 crores in 1964-65. In future, with the increase in agricultural and industrial production, it may be possible to bring about a balance in between supply and demand. Then a further rise in the price level may be checked. Though it is neither possible nor desirable in the interest of the economy to reduce the price level. What is necessary is to arrest the further rise in the price level. If price level increases too much, it adversely affects the will and capacity of the people to save, because money saved for rainy days buys a much smaller umbrella

than it used to. If price level increases at a rate higher than the rate of interest, people invest the money in gold, etc., because it becomes profitable to do so.

Government Budgeting and Objective of Democratic Socialism

The country has accepted establishment of Democratic Socialism as its goal. This objective is historically rooted in our Independence movement and constitutionally flows from the Directive Principles of our Constitution. The Directive Principles of State Policy charge the State with the duty of securing a social order in which Justice—Social, Economic and Political—shall form the basis of all institutions of national life. Citizens, men and women equally are to have the right to an adequate means of livelihood. The ownership and control of the material resources of the community are to be so distributed as best to subserve the common good and the State is required to ensure, through its policies, that the operation of the economic system does not result in the concentration of wealth and means of production to the common detriment. The planned economic development adopted in our country, embodies the efforts of the nation to build up a new life for itself by democratic processes and to create a pattern of society in which there will be a high and rapid rise in the standards of living and a fuller and richer life, through additional employment opportunities, increased production and the largest measure of social justice attainable. The draft Third Five Year Plan states that, "It is a basic premise in India's Five Year Plans that, through democracy and widespread public participation, development along socialistic lines will secure rapid economic growth and expansion of employment as well as equitable distribution, reduction of disparities in income and wealth, prevention of concentration of economic power and creation of the values and attitudes of a free and equal society".

The Government budgets are interwoven with these objectives. The budget is a powerful instrument by which our objectives can be achieved. It is not merely to raise the resources to cover expenditure. But there are other objectives such as increasing savings, promoting exports, uplifting the backward classes and providing social security to the citizens. The Budget is also to

serve the objective of social justice in distributing the rewards and sacrifices implicit in planned progress. It is through the Government budgets that the country can come near to its goal of attaining democratic socialism based on Parliamentary system. Government budgeting and establishment of democratic socialism both are continuing processes. The goal of establishing democratic socialism cannot be achieved by budgets of a decade or two. The process of achieving the goal will continue. The Finance Minister, while replying to the budget debate on May 9, 1962, said, "Socialism cannot be brought within Five or Ten years. It is a continuous process. The only thing is that we have got to do it as quickly as possible and in such a manner that whatever we do is properly digested and brings in a healthy development and not lop-sided development or unhealthy growth anywhere in the society".

During the period 1950-51 to 1964-65, taxation has increased from Rs. 512.85 crores to Rs. 1,684.16 crores. It is through taxation that purchasing power is transferred from individuals to the State to be spent for public welfare. Taxation also acts as a weapon for transferring wealth from the rich to the State to be spent on services more beneficial to the poor. Increased taxation is necessary for meeting expenditure on items which will help economic development of the country.

Another important aspect of Indian budgets of this period is the increased expenditure on social and development services. The expenditure on social and development services has increased from Rs. 25.21 crores in 1950-51 to Rs. 168.14 crores in 1964-65 (budget). The following statement shows the Developmental and non-developmental expenditure of the Central and State Governments.

The increased burden of taxation on the richer sections, and increased benefit from social and development expenditure to the poor sections will take us nearer to the goal of reducing inequalities in the distribution of wealth and income. Increased expenditure on social services is very necessary if the country is to progress. Such expenditure adds to the real income of the people. By such expenditure, greater facilities for education including technical education are being provided to the people. Greater medical facilities are also available to the people. The

(*Amounts in Crores of Rupees*)

	1951-52	1955-56	1960-61 (*Bud.*)
Total Expenditure	998	1470	2587
Development Expenditure	480	884	1703
Non-Development Expenditure	518	586	884
Development Expenditure as percentage of total expenditure	48.1	60 1	65.8
Non-development expenditure as percentage of total expenditure	51.9	39.9	34.2

general death rate per thousand of population which was 19.7 has been reduced to 9.4 in 1960. Government has undertaken a number of programmes for prevention and control of diseases like Malaria, T. B., Small-Pox, Leprosy, etc. All these programmes, in the field of education, health, community development, etc. have raised the economic status of people. The Government has started a number of social insurance schemes, like employees state insurance, old age pension, etc. The Government is also considering for a comprehensive social insurance scheme.

As regards reduction in the disparity of income, Government's emphasis is on increasing production. For removal of poverty, there must be more production and without production of wealth, there cannot be any distribution of wealth. There has been marked progress in the agricultural and industrial fields. The disparity has also been reduced. Higher incomes are going down and lower incomes are rising, and number of persons in the higher ranges of income is increasing. In this direction efforts are to be made that fruits of development are channelled towards poor people. A higher burden of taxation on the shoulder of those who can bear it and increased expenditure for the benefit of the poor, will go a long way in reducing disparity in income and wealth. The development of training facilities resulting in more employment opportunities is also an aspect

of the same. An increase in wage-level and encouragement of workers' participation in industry also help in this direction. It is necessary because budget in a planned economy tries to shift incomes in a particular direction. When the whole society is engaged in putting forth its maximum effort in industrialising the country and in strengthening its economy, it is always necessary to see how the fruits of development are being shared.

During the period 1950-51 to 1964-65, the economy has gained greatly both in terms of performance and of the potential to further growth. This period has been a period of striking development in almost all sectors of the economy. Large investments have been made in agriculture, irrigation and power and in major as well as medium and small industries, transport and social services. All over the country—in the cities and in the town as also in rural areas—one sees the beginning of new development in various directions. The country has entered into a new era of development and prosperity. A new dynamism has been created in the economy. For this credit goes to Government budgeting which has transferred the economy of the country from the stage of hope to the take off stage.

CHAPTER VIII

SOME SPECIAL PROBLEMS OF GOVERNMENT BUDGETING

WITH THE growth of democracy and governmental responsibilities in the field of economic and social affairs, government budgeting faces certain special problems. In order to find out a proper solution of these problems, new developments and reforms in the budgetary techniques become inevitable. Government budgeting is a dynamic process, which would change as circumstances and conditions change. Here a few problems are being discussed. These problems have special importance to Parliament, Government and the public.

REVENUE ESTIMATION

Revenue estimation is a scientific art of estimating the probable revenue of the government for the next financial year. The problem of revenue estimation has become increasingly important in the field of financial administration during recent years. The huge expenditure incurred by government on development projects and the growing complexity of modern tax system have emphasised the need for accurate revenue estimates. The government has to focus greater attention on the problem of reasonable accurate revenue estimates, because, on these the whole budgetary structure of the government rests. It is only when revenue estimates are accurate that the budget will serve its purpose. The revenue estimates have a decisive influence on major fiscal policy determinations. The amount of anticipated revenue is an important factor in the consideration of future tax policy and in the determination of the contents of the expenditure programme. It also influences governmental decision concerning borrowing programme. It is of utmost importance for sound financial policy of the government that revenue estimates are accurate or very near to accurate. Otherwise, the tax, expenditure and debt programmes would be formulated on an unsound basis, and will create difficulties in the course of the year.

The problem of revenue estimation enters at several points in budget preparation. In the initial stages, the Finance Minister after considering the expenditure programme and projects, estimates his total need of funds. The revenue estimates, at this point are considered in broad outline. The item-wise revenue estimation is done by the Central Boards of Revenue in consultation with the Finance Ministry. Later on, these estimates are changed at the will of the Parliament. The estimates of revenue, finally approved, act as a guide to the Executive in budget execution. During the course of the year, the revenue outlook may require modification in expenditure programme. It is then done.

Methods of Revenue Estimation

The different methods of revenue estimation have been developed through the evolutionary process. When the governmental organisation was simple, its duties were limited and it required little research or pains for estimating the revenue. With the complexity of governmental organisation, its increased revenue, functions and growth of economic activities, the revenue estimation has become a complex problem, to be tackled in a scientific way. The methods of revenue estimation are :

(*i*) *The Automatic System.* The system was in vogue in the early years of the 19th century. It is also called the rule of penultimate year. According to this method, the revenues for the budget year must be identical with the actual revenues for the fiscal year last ended. It consists, purely and simply, of entering as the probable return of the coming fiscal year, the actual results of the last fiscal year. It is called an automatic system, because it does not require any intellectual effort in estimating the figures of the last year which are reproduced in totals and in details. The application of this method shields the Finance Minister, as it leads to no criticism in the Parliament.

Under this system, the past is treated as an exact model for the future. But it has serious defects and is unsuitable in the present circumstances. First, it eliminates any exercise of judgement or discretion on the part of the Executive, secondly, this restricts the activities of the government. This method may be

suitable in a static economy. In an expanding or developing economy or in the complex economic system, where there are many factors influencing economic activities of the people, this method is of little use.

(ii) The Average System. This method of revenue estimation was developed in the later years of the last century. According to this method, revenue estimates are prepared on the basis of a three-year or five-year average of the revenues received. This method of averages requires simple projection of each source of revenue.

These two methods of estimating revenue were the product of an age when State activities were limited, the country's economy was more or less static and organizations were simple. But in an age, where these conditions are no longer found, a better system is needed.

(iii) The System of Direct Estimation. The system had its origin in British practices and intimately bound with tax research. The method treats each year to be a new problem. The coming year is considered a particular problem and the various economic, political and social factors are weighed by experts in the light of past experience or statistics gathered and expectations about future conditions. No simple formula is employed and the decision regarding the future is primarily a matter of judgement. Experienced prognosticators are required for the success of this method. This method of direct estimation worked so successfully in the accurate estimation of revenue in the U.K. that Mr. J. Wilner Sundelson observes that "The British Treasury for many years has had an enviable reputation for accurate estimating. There seems to be little doubt that this is directly due to the large volume of public attention and Parliamentary debate which centres on revenue and the intimate relationship between the forecast of revenue and the possibility for increases or decreases in the tax rates".[1]

The accurate estimating of revenue depends upon the character of revenue sources, their stability, the level of economic activity, time relationship and like factors. A classification may be made of various sources in accordance with their character and degree

[1] J. Burkhead, *Government Budgeting*, p. 381

of influence on the level of economic activity. For example, the out-turn from Income-Tax will depend very much upon the level of economic activities in the country, while taxes on property will remain more or less stable. Time relationship, which is also an important factor, means that the larger the time between the estimates of revenue and actual collection, the more defective would be the forecast for future revenues. There should be a short interval between the revenue estimation and the putting into effect of the budget.

Revenue Estimation in India

The estimation of revenues in India is far from satisfactory so far as their accuracy is concerned. This fact has been brought to the notice of the Government in the Parliament by certain members during budget discussion. Shri M. L. Trivedi, in the course of his speech, said :

दूसरी चीज़ मैं आपसे रेवेन्यू के एस्टीमेट्स के बारे में कहना चाहता हूं। हम देखते हैं, कि आप जितना अनुमान करते हैं, उससे रेवेन्यू हमेशा बढ़ जाती हैं। चाहिये तो यह कि आप अपने पिछले अनुमान के आधार पर ऐस्टीमेंट करें और आप ऐसे आंकड़े बनायें जितना आप कर लगाते हैं, उतना ही आपको वसूल हो।[2]

Shri Somani on 24th March, 1962, during budget discussion, said, "I would like first to draw the attention of the Finance Minister to the consistent under-estimates of our revenues being done year by year. In 1959-60, the surplus in revenues over the estimated figure was Rs. 90.33 crores, in 1960-61 it was Rs. 52.14 crores and in the year 1961-62 it is Rs. 61.16 crores. In other words this surplus in revenue of about Rs. 60 crores, almost a 100 per cent increase over the amount of additional taxes which the Finance Minister had imposed on the assessment of certain revenues. It is really very desirable that in our future budgeting the assessment of our revenues is made on a more realistic and practical basis".[3]

Mr. Nalaraja Pillai also remarked, "I see the budget figures for 1958-59, 1959-60 and 1960-61, because in all these years the deficit has gone down and sometime the deficit has turned into

[2] L. S. Debates, Second Series, vol. LII No. 20 Col. 5161
[3] L. S. Debates vol. LXI No. 9 Col. 1558

a surplus. For example in the year 1958-59, the deficit went down by Rs. 54.70 crores. In the year 1959-60, the deficit had turned into a substantial surplus indicating a difference of Rs. 57.94 crores. Again in the year 1960-61, the deficit turned into a substantial surplus indicating a difference of Rs. 84.86 crores. In the same way, will I be wrong if I presume that this year also the anticipated revenue will err on the right side and give us excess receipts".[4]

Shri Morarka, bringing out defects in Government's estimates, remarked, "It is true that our revenues are under-estimated and our expenditure is over-estimated. But it is not for lack of any precise data or want of competent officer. I submit, it is a deliberate budgetary policy. It is a new budgetary technique and is done in order not to give avoidable shocks to our economy".[5]

Such thing is also evident from audit reports. The audit report (civil) for 1964 on the Centre's revenue receipts shows that of the total receipts of Rs. 1,585.30 crores for 1962-63, Rs. 1,180.89 crores represented tax revenues—receipts under Customs, Union excise, corporation tax, income tax, estate duty, wealth tax, expenditure tax, gift and other levies. The actual receipts exceeded budget estimates by Rs. 204.37 crores and were more than double the revenue realisation in 1957-58 (Rs. 728.12 crores) and 63 per cent more than the revenue of 1961-62.

The report pointed out that the bulk of the variation between actuals and budgeted revenues occurred under four major sources of tax revenues—Customs, Union excise, corporation and income taxes. The receipts under these heads exceeded estimates by Rs. 176.99 crores.

Customs revenue for the year shot up to Rs. 245.96 crores from 170.03 crores in 1960-61, Union excise duties to Rs. 598.83 crores from 416.35 crores, corporation tax to Rs. 220.06 crores from Rs. 109.70 crores and taxes on income other than corporation tax to 92.13 crores from 81.37 crores.

The Public Accounts Committee has also several times expressed its concern over such affairs. In its Report presented in the Lok Sabha on 18th March 1964 the Committee, noting that

[4] Col. 2961
[5] Col. 3161

"in 1961-62 the actual receipts and expenditure on revenue account taken together turned an estimated deficit of Rs. 5.57 crores into a surplus of Rs. 124.86 crores, said that, a wider gap shown in the estimates tended to release inflationary trends. Realising estimates in respect of both resources and expenditure were imperatively necessary".

These various speeches of the M.P's, during the course of budget discussions, and reports make it clear that the estimation of revenue is not properly done in our country. This may also be tested by taking figures from the budgets :

(In Thousand Rupees)

Year	*Budget Estimates*	*Actual*	*Difference*	*%*
1949-50	3230211	3503847	+ 273636	+ 7.8
1950 51	3385874	4106604	+ 720730	+17.6
1951-52	4018850	5153682	+1134832	+22.02
1952-53	4049831	4351052	+ 301221	+ 6.9
1953-54	4392626	4159777	− 232849	− 5.6
1954-55	4528752	4561276	+ 32524	+ 0.7
1955-56	4904592	5043255	+ 138663	+ 2.7
1956 57	5273904	5899629	+ 625725	+10.6
1957-58	6349713	7258069	+ 908356	+12.5
1958-59	7679885	7578928	− 100957	− 1.3
1959-60	7801020	8704270	+ 903250	+10.3
1960-61	9199796	9716700	+ 516904	+ 5.3
1961-62	10179500	11367300	+1187800	+10.4
1962-63	13809300	15852900	+2043600	+13.0

(Note: Percentage error is computed by dividing the difference by actual figure and multiplying by 100)

The figures given above indicate that there is mostly under-estimation of revenue and the error in some years is higher than ± 5 per cent. This shows that the system of revenue estimation is defective in our country. The figures given above are of total revenue and the margin of error is greater in individual sources of revenue. Thus it is necessary that, in our country, the work of revenue estimation should be done on scientific

basis. Relevant statistics should be collected on the basis of which estimates for each source of revenue may be made.

The basis of revenue estimation should not be forecasting and prophesying, but should be rather measurement and analysis. Important elements in revenue estimating should be quantitative; careful research in taxonomics can convert guesses into insights. The most important research is the determination of factors that affect out-turn of different sources of income. Besides, the revenue estimating agency must possess a thorough knowledge of tax collection procedures and the pattern of receipts. The agency also requires a statistical analysis of the seasonal pattern for specific tax revenues. Every revenue source has such a pattern as may or may not be constant from year to year.

For estimating revenue from Income-tax, which is one of the important sources of Governmental revenue, the statistics of National Income and its distribution will be of great help. If there is greater concentration of national income in the upper sector, tax revenue will rise more than proportionately. The knowledge of national income, its composition and distribution will be of great help in correct estimation of revenue from income-tax. For corporation tax, the nature of business period, whether boom or depression, number of corporations and trend of their profits, will act as a guide in estimating revenue. For estimating revenue from excise duties, production plan of different industries for the coming year should be taken into account. As Indian industries are working under the direction of Five-Year Plans, their plans of production are drawn up in advance. In any economy where there is control over import and export trade, estimation of revenue from customs will be an easy affair, but for this there is need of close co-ordination between the policy of commerce Ministry and Finance Ministry.

Estimates cannot turn out to be actuals, because, howsoever our estimating agency may be efficient in its task, the future is uncertain. Estimates are more of a plan nature rather than forecast, and there is difference between plan and forecast. No Government can hope to execute its economic policy successfully if its forecast or plan is widely inaccurate. No doubt, these estimates are subject to some error, but generally it is noticed that inaccuracies of estimation are of deliberate rather than acci-

dental nature. What is desirable is that there should not be any manipulation in estimation of revenue. It should also be the endeavour of the Government that estimates are near to the actuals. Revenue estimation should be based on sound judgement, experience, concrete formulas and statistical facts. We may hope for gradual improvement in estimating techniques.

PUBLIC ENTERPRISES

Government budget in order to be comprehensive must cover whole of the public sector. "The public sector can be defined to include all agencies whose activities a Minister or other responsible person, is accountable in detail to the Central Legislature".[6]

According to this definition, the Central Government sector would typically comprise:

(*a*) All departments or other agencies of Government and all enterprises which are included in the budget of the Central Government.

(*b*) All other general Government agencies which are required to submit detailed statements on their activities to the legislature and whose activities are financed primarily by revenue raised in accordance with laws enacted by the legislature or by appropriation included in the budget.

(*c*) All other enterprises whose capital formation or lending activities are financed primarily by grants or loans included in the budget.

In our country, with the dawn of Independence there has been enormous growth of public sector. The formulation of the country's development plans and the adoption of an Industrial Policy Resolutions of 1948 and 1956, led to a considerable expansion of public sector in the country. In the planned development of the country, the public sector has played, and will play in future, an important role. A number of Government undertakings have been established during the last decade. These undertakings are of three types. The first are the Departmental undertakings which are controlled by the Ministry concerned. The finances of such undertakings are wholly integrated

[6] U. N., *Budget Management*, p. 6

with the departmental finances. The second organisational type is the Public Corporation created by a specific Act of Parliament. The third form is that of joint stock company incorporated under the Indian Companies Act. The shares of these companies may be owned by the Government in whole or in part.

The number of these enterprises of the public sector is increasing every year. Upto the year 1963-64, there were 13 departmental undertakings including railways and post and telegraphs. Total investment in these undertakings upto the year 1964-65 was 2,652.24 crores of rupees including an investment of 2,389.40 crores of rupees in railways and 224.41 crores of rupees in post and telegraphs. There were 14 undertakings organised either as Corporations or Joint Stock Companies under construction, thirty-one running undertakings and nine promotional and developmental undertakings upto the year 1964-65 (Budget). Total capital invested in all these undertakings amounted to 1,184.43 crores of rupees. The money for these undertakings come from the Consolidated Fund of India after being voted by Parliament. Leaving out the departmental undertakings, other public enterprises enjoy an autonomous status. Thus they are not answerable to Parliament in the same way as departmental undertakings are. The very composition and nature of these public enterprises are such that they should be run on commercial lines, which require a fair degree of autonomy in their working. Mr. Herbert Morrison, in a Parliamentary debate on control of Public Enterprises in the U.K. stated, "I am certain that if we run these public corporations—highly commercial, highly industrial, highly economic—on the basis of meticulous accountability to political channels, we are going to ruin the commercial enterprise and the adventurous spirit of the public corporation in their work".[7] Though autonomy in the internal working of these enterprises is desirable, yet on the other hand, considering the huge public investment, it is also necessary to have public control over them through the agency of Parliament. It is not desirable to leave them alone without subjecting them to public criticism on the floor of Parliament. As the Parliament is the representative body of the people, it is necessary that it should have control over public enterprises. "The need for account-

[7] Burkhead, *Government Budgeting*, p. 409

ability in the nationalised industries arises from the vast amount of capital and of income and expenditure involved in concerns which are under public ownership, the charges upon consumers and users of the necessities of civilised life which they provide; and the Treasury guarantee of the interest paid on the stock issued in respect of the various nationalised industries."[8]

In a joint stock enterprise, the shareholders, as a body control and direct the activities of the concern. But the ownership of a public enterprise is not like that of a company. Public enterprises are owned by the public as a whole and not by an individual. Parliament, being the representative body of the people, may be said to be the representative of the owners. It is its duty as well as its right to control public enterprises and see that nothing happens which is against public interest, keeping intact the flexibility and autonomy for their successful working. Parliament should control all types of enterprises including those which are run departmentally. Leaving these enterprises out of the general control of Parliament is not justified. Shri A. K. Roy, the Comptroller and Auditor-General of India in a talk delivered before the Institute of Chartered Accountants said, "The President in his capacity as Head of the State obtains the vote of Parliament to transfer certain sums of money to a company of which he himself is the sole shareholder. By this means, sums of money pass from Parliamentary control, though they remain at the disposal of the Executive. The exact functions, powers and characters of these companies are not laid down by Parliamentary Statutes, but are defined by the Executive within the framework of Indian Companies Act. Many will be disposed to agree with one of my predecessors that this is a fraud on the Companies Act and also on the Constitution". To keep public enterprises out of the control of Parliament on the plea of keeping autonomy in their working is neither justified nor constitutional. "They cannot expect the public to behave like absentee landlords, nor can they expect to be treated like delicate flowers which wither away at the slightest touch of criticism. The ultimate accountability to Parliament which is the source of all authority to spend the taxpayers' money must remain unimpair-

[8] Report of the Select Committee on Nationalised Industries, H. M. S. O 1955, p. 4

ed".[9] Some ways must be devised to ensure their accountability and control to the Parliament. How the moneys voted by Parliament are spent, whether they are well laid and due economies are being observed in their operation; these are the matters which occupy the mind of the representatives of the people.

The Present Position

The public enterprises which are constituted as statutory corporations are subject to audit by the Comptroller and Auditor-General of India. As these corporations are financed from grants or grants-in-aid voted by Parliament, the Comptroller and Auditor-General exercises audit control as an officer of Parliament and in the normal course reports the result to Parliament. The audit conducted by him is with reference to the provisions of statutes creating the corporation and the rules and procedure prescribed by it. Thus, Parliament gets an opportunity of scrutinising and discussing the affairs of such corporations. In this connection it may be observed that the Comptroller and Auditor-General of the United Kingdom declined to take over the audit of corporations on the ground that he did not have the staff for the enormous work involved and if he were to obtain his requirements from the profession, it might create embarrassment for it. But the Indian Comptroller-General has accepted the responsibility and with the help of professional auditors and Commercial Audit Department established as a wing of his office is doing the job. Public enterprises financed from the Consolidated Fund of India, are being audited by professional auditors appointed by the Government on the advice of the Comptroller and Auditor-General. These professional auditors are expected to function in the same manner, in which they would in case of non-Government company. In addition, the Comptroller and Auditor-General has the power to direct the manner in which the Company's accounts shall be audited by them and he can also do supplementary or test audit of that company's accounts. He also has the right to comment upon or supplement the audit report of the professional auditors. The audit conducted by the professional auditors is in conformity with the provisions of the Companies Act. They are to see that the books of accounts are

[9] Speech of Shri A. K. Roy

properly maintained, that for every expenditure, there is sanction of competent authority, that expenditure is supported by vouchers, that the Profit and Loss Account and the Balance Sheet have been correctly prepared on the basis of accounts maintained and depict a true and fair picture of the working of the concern. The audit of Comptroller and Auditor-General is something more than accounting audit. He sees broadly whether the financial transactions of these concerns have been conducted with wisdom, faithfulness and economy, whether the targets have been achieved as scheduled. The audit arrangement, on the whole, is not regarded as adequate, because the primary audit control vests with the private auditors. As the nature, capital structure, pricing policy, production programme, expenditure pattern of public enterprises differ materially from private sector enterprises, the audit must be taken over completely by the Comptroller and Auditor-General. For this, he should strengthen his Commercial Audit Department.

It is obvious that once moneys are voted from the Consolidated Fund of India, Parliament ceases to have effective control over the enterprises. Parliament gets only limited opportunities for discussing their affairs, because provision in the Budget Estimates for advancing capital, loans, etc. to them are likely to be made rarely and the C. & Ar. GJ., though he has jurisdiction, would not normally interfere unless some cases of gross mismanagement and irregularities are revealed. Sir Joeffrey Vickers, with regard to control of the U.K's Parliament over state enterprises, states, "Parliament has an unlimited general power of control in that it can alter the law, but it has no specific power of control, as distinct from its right to receive an account. On the other hand it has far more opportunity than a body of shareholders to express its views, its criticisms, its apprehensions, even its confidence and satisfaction if it should come to entertain these feelings; and it would be wrong to suppose that such expressions have no influence merely because the sanction behind them is an unwieldy one".[10] More or less a similar position is found in our country. Because of the investment of large public funds on the one hand, and the autonomy enjoyed by them in the

[10] *Public Administration* "The Accountability of Nationalised Industries", p. 80

internal administration on the other, there is need for an effective watch over the affairs of such public enterprises. Under the present arrangements, the Parliamentary control take the form of:

(1) Questions tabled by Members of Parliament,
(2) Debates and Discussions on the budget and on other occasions, and
(3) Examination by Parliament Committees.

Questions

The method of 'asking questions in Parliament' is the most popular method for ensuring accountability to the Parliament. This method is used fully in the case of enterprises, departmentally managed, to elicit required information on the management and operation of the enterprises where the Minister is directly responsible for them under his Ministry. In the case of Government Joint Stock Companies and Public Corporations, only questions pertaining to policy matters are supposed to be asked. Questions on day to day activities of such enterprises are to be avoided, and such questions would not usually be answered, if asked, because that would amount to interference with their autonomy in the day to day working. "Control of policy and non-interference with the internal administration" in case of public enterprises is regarded as a sound principle. Prof. Robson states that, "It has long been recognised that while Parliament has a right to discuss and determine matters of major policy concerning the nationalised industries, the day to day conduct of their business by the Public Corporations should be immune from Parliamentary inquisition".[11] To abide by this principle, the Speaker has laid down the following general principles regarding the admission of questions:

(1) Where a question (*a*) relates to a matter of policy or (*b*) refers to an Act or Omission of an act on the part of a Minister or (*c*) raises a matter of public interest although the same may pertain to a matter of day to day administration or on individual case it may ordinarily be admitted for oral answer.

[11] Problem of Nationalised Industries, p. 311

(2) A question which calls for information of a statistical or descriptive nature may also generally be admitted but as unstarred.

(3) Only questions which clearly relate from day to day administration and tend to throw work on the Ministries and the Corporations, incommensurate with the results to be obtained therefrom, are normally to be disallowed.

Under a convention, recently established on the suggestion of the Speaker, Members of Parliament may also obtain any information they may desire from the statutory bodies. These bodies have been instructed by the Government to supply information, unless, in the public interest or for any other sufficient reasons, it has to be withheld. The M. P.'s can also raise half-an-hour discussions for clarification of matters of fact concerning a statutory body, when any important points requiring elucidation arise out of answers given to questions in the House.

Debates and Discussions

Control over public enterprises is also exercised by Parliament through debates and discussions in the House on various occasions, viz. when a Bill is introduced for establishing an enterprise, when reports, etc. are laid before Parliament and when funds are demanded during budget session. Opportunities to discuss the affairs of public enterprises are availed of by members while the Bill for establishing them or for amendment thereof come up for consideration by Parliament. Though Parliamentary discussions at the time of introduction of Bill provide an opportunity for criticising the policy of the Government, but their importance and usefulness is limited. Prof. A. H. Hanson observes, "The most important occasions for Parliamentary discussion, of course, provided by the nationalisation bills themselves. They can hardly be described, however, as opportunities for the exercise of Parliamentary control (whatever that rather ambiguous expression may mean), because the House of Commons was then discussing the very powers that it proposed to confer on itself — deciding, in fact, on how much parliamentary control, there should actually be. But amending legislation, more important and frequent than was perhaps originally en-

visaged has often provided the House with a chance to consider the affairs of a nationalised industry fairly comprehensively and at some lengths".[12] More useful and critical discussions take place, generally at the time when some amendment is introduced in some existing law concerning some public undertaking.

Another opportunity for discussion of the affairs of public enterprises is provided when reports on their working are submitted to Parliament. In many cases, it has been made statutory to submit an Annual Report of the enterprise (together with financial statement, certified accounts or returns, etc.) to Parliament. For Government Companies, the section 639 (i) of the Indian Companies Act, 1956, states that, "the Central Government shall cause an annual report on the working and affairs of each Government Company, to be prepard and laid before both Houses of Parliament, together with a copy of the audit report and comments upon and supplement to the audit report made by the C. and Ar. Gl. of India".

All these reports are laid on the Table of the House and copies thereof are available at the Publication Desk for scrutiny by Members. Interested Members may read them and bring matters, in connection with them, before the House by asking questions or by introducing motions and resolutions. These reports are also available in the Parliament Library for casual visitors. Members, interested in the working of any particular statutory body and wishing to debate its affairs, may give notice either by raising a debate thereon on a substantive motion or for a short duration discussion (not exceeding 2½ hours) as a matter of urgent public importance, should circumstances warrant it. Along with the notice, Members are required to furnish the specific points which they want to raise during the debate. The statutes also generally make a provision that the rules and regulations, framed under them, shall be laid on the Table of the Parliament for a specified period and shall be subject to such modification as Parliament may make. This enables Members to give notices of motions for modification of the rules which in turn provide them with opportunity to discuss matters pertaining to the Statutory bodies. Thus the submission of Annual Reports and Financial Accounts—provides an opportunity to the

[12] *Parliament and Public Ownership*, A. H. Hanson, pp. 42-43

M.P's and the members of the public to watch the progress of public enterprises. This is also a source of Parliamentary control over public enterprises. These reports should be clearly drafted and should contain all the necessary information about the enterprise. It is also suggested to adopt standardised proformas and uniformity of information in these reports, to make them more useful.

Besides, during the Budget session every year, Members avail themselves of opportunities to refer, among other matters, to the working of statutory bodies, when the demands of the concerned Ministries are discussed in the House. Members may table cut motions to draw the attention of the House to the particular aspect of the working of these bodies. In some cases, it has been made obligatory under the Act of the statutory body, to frame budgets of their own. For example, the Damodar Valley Corporation Act requires the Corporation to frame a budget and to submit a copy thereof to the Central Government for approval which thereafter has to be placed before Parliament. In cases of Employees State Insurance Corporation and Oil and Natural Gas Commission, budgets are submitted to the Government, but are not laid before Parliament.

It is thought both, necessary and desirable for Parliament to debate the financial requirements of the public enterprises while approving the budget. Most Government Companies and public Corporations are financed initially from the money drawn from the Consolidated Fund of India. Parliament must sanction money from this fund. Mr. A. Chanda, a former C. and Ar. Gl., observes, "when a new company is to be formed, a demand for grant for its financial requirements is placed before the House, thus affording it an opportunity of discussing the investment and the form it is proposed to be made".[13]

Committees of Parliament

There are at present three Committees of Parliament which exercise some control over public undertakings.

(*a*) *Committee on Government Assurances*: This Committee keeps a watch on the assurances given inter-alia in respect of statutory bodies. The committee sees that Government takes

[13] *Indian Administration*, p. 199

action on the assurances given to the House within a reasonable time and that the action taken is satisfactory.

(*b*) *Public Accounts Committee* : Under the Rule 308 (3) of the Rules of Procedure of Lok Sabha, the Public Accounts Committee is required to examine inter-alia :

(*i*) The statement of accounts showing the income and expenditure of State Corporations, Trading and Manufacturing Schemes and Projects (as also their Balance Sheet and Statement of Profit and Loss accounts), and the report of the C. and Ar. Gl.

(*ii*) The statement of accounts showing the income and expenditure of autonomous and semi-autonomous bodies, the audit of which may be conducted by the C. and Ar. Gl. either under the direction of the President or by a statute of Parliament.

The Annual Reports of the statutory bodies, together with their Balance Sheets and Profit and Loss Accounts and a review by the C. and Ar. Gl., are presented to Parliament and come under the scrutiny of the Public Accounts Committee. The examination of the Public Accounts Committee extends 'beyond the formality of the expenditure to its wisdom, faithfulness and economy'. The examination, though of a post-mortem nature, is primarily conducted with a view to ascertain that the money granted by Parliament has been spent within the scope of the demand. Parliament, is however, merely interested in seeing that the expenses incurred currently are economically and technically unavoidable and the management has been efficient in performance.

(*c*) *Estimates Committee* : The Estimates Committee in India, from its inception, has not excluded, from its purview, the examination of public undertakings. Its examination is charged with suggesting alternative policies in order to bring about efficiency and economy in administration. The Estimates Committee has not satisfied itself with a superficial examination of estimates; rather it has interpreted its functions broadly to include a survey of Governmental activities, past, present and future. Its terms of reference have not been interpreted narrowly to restrict its

jurisdiction to the estimates alone which appear in the annual budget presented to Parliament. It has also examined estimates of public undertakings wherever deemed desirable. The Committee has examined undertakings like Air India International Corporation, Damodar Valley Corporation, Indian Air Lines Corporation, Port Trusts of Bombay, Calcutta and Madras, Hindustan Steel (P) Ltd., etc.

SEPARATE PARLIAMENTARY COMMITTEE
Public Enterprises

The Estimates Committee has rendered useful assistance to Parliament by examining certain public enterprises, but it did not have sufficient time to cope with the increasing number of public undertakings. Moreover, it has been felt that the nature of the examination of public undertakings should be different from that of the departmental estimates. A demand was raised in the Parliament since long for establishing a separate committee for Public Undertakings on the pattern of Parliamentary Committee existing in the U.K. The U.K's Committee is working successfully and has issued a number of reports. "Judged by these reports it can be said that the committee has established a good reputation. It seems that it has not so far caused a feeling in the nationalised industries of interference in their internal affairs".[14]

First of all, Dr. Lanka Sunderam, in the course of two-days debate in Parliament on December 10 and 11, 1953 about control over public undertakings, moved for a separate Committee, which could sit all the year round to look into the affairs of Government undertakings. The establishment of such Committee would make the authority of Parliament over public undertakings effective. This was felt necessary because the existing arrangement for Parliamentary control over the Public undertakings was less than adequate. It was argued in the debate that neither one of the two existing Committees, namely the Public Accounts Committee and the Estimates Committee, has the time and the opportunity to examine the problems relating to public enterprises in a proper way. In spite of the fact that these Com-

[14] *I. I. P. A.*, 'Question of Parliamentary Committee for Public Enterprises', p. 12

mittees have done some valuable work, the fact that the Public Accounts Committee comes into the picture only after the event and the Estimates Committee, by its very constitution is unfit to go into detailed and lengthy examination. Further the examination of the P.A.C. is only from the angle of treasury or administrative control. An entirely different mechanism is required to supplement the investigations of the P.A.C. It was said that Parliament is handicapped in its control over public enterprises because of lack of knowledge. The proposed Parliamentary Committee can furnish Parliament with material for putting meaningful questions and having more fruitful discussions. Mr. C. D. Deshmukh, the then Finance Minister, while agreeing to the demand for a separate Committee in principle, suggested an alternative that the work of examining the public undertakings might be entrusted to a sub-committee of the Estimates Committee. The then Speaker of the Lok Sabha, also suggested that, "there is no harm if a separate committee is appointed with limited functions, such as to examine reports and the working of such bodies after the reports are presented to or are otherwise circulated to members and on matters concerning their organization, working and administration. The proposed Committee will not go into the problems of day to day administration of such corporations, but would only consider questions of policy and their working broadly".[15]

It was due to all these demands from different quarters that a sub-Committee of the Estimates Committee was appointed in May, 1959 from amongst the members of the Estimates Committee. For all practical purposes, the sub-Committee acted in the same manner as does the main Committee except that, on conclusion of the examination, its report went before the whole committee for final adoption. The sub-Committee, charged specifically with the task of looking into the affairs of public undertakings, in its very first year of formation, undertook a special study of the organisational problem of public undertakings as well as the problem of their accountability to Parliament. The sub-Committee presented two special Reports on public undertakings in 1959-60, one on the subject of 'Preparation of Budget

[15] 'Parliamentary Control over State undertakings', The Report of a Sub-Committee of the Congress Party in Parliament, p. 8

Estimates of Public Undertakings and Presentation of their Annual Reports and Accounts to Parliament' and the other on 'Public undertakings—Forms and Organisation'. These reports drew attention to several lacunæ in the organizational structure and financial practices of public enterprises, and also to the need for securing a measure of uniformity in their structural organisation and preparation of their budgets, annual reports and Accounts, etc.

It was strongly felt, that the sub-Committee is not an appropriate agency for parliamentary control of Public enterprises. Public enterprises are being set up in increasing numbers and, in a country like India, they predominate in certain vital sectors of the economy. Thus Parliamentary control over public enterprises has to be adopted to meet the demands of the present time. For this, it becomes inevitable to appoint a separate committee like P.A.C. or Estimates Committee, which may devote sufficient time to the detailed examination of Public enterprises. Mr. Ashok Mehta, in the course of Lok Sabha debates of May, 1956, said, "After all Members of Parliament who were elected to a particular Committee could do only a particular quantum of work. It was of no use saddling different Committees with varied responsibilities which were beyond human capacity to carry out. Therefore, there must be a separate committee which must have requisite expert assistance from the Parliament Secretariat". Sardar K. M. Pannikar, in his Inaugural address to the Political Science Congress, held at Hyderabad on December 27, 1951, said, "We have to discover the nature and extent of popular authority over autonomous statutory bodies set up by the State to administer great enterprises started in the public interest but run on commercial principles. We have to consider and determine how far Parliamentary control can be reconciled with efficiency in large scale enterprises which every modern state seems to undertake in some form or another". Parliamentary control over these numerous undertakings would not be effective unless a separate committee was formed. This was all the more necessary, because, in the early years, huge funds were invested in pioneering these enterprises, requiring special check up.

The establishment of a separate committee for State Undertakings has now become a *fait accompli*. This was in fulfilment

of a long standing demand of Parliament. The Committee will consist of 15 members; 10 from Lok Sabha and 5 from Rajya Sabha. The Committee on Public Undertakings will scrutinise the working of public sector undertakings. The functions of the Committee are: (*i*) to examine the reports and accounts of the public sector undertaking; (*ii*) to examine the reports of the Comptroller and Auditor-General on these enterprises; (*iii*) to scrutinise in the context of autonomy, efficiency of the public sector undertakings whether their affairs are being managed in accordance with sound business principles and prudent commercial practices and (*iv*) such other functions as are vested in the Public Accounts Committee and the Estimates Committee of Parliament in relation to these concerns. It has, however, been stipulated that the Committee shall not examine and investigate matters of major Government policy as distinct from business or commercial functions of the public sector undertakings and also those relating to day-to-day administration. The members of the Committee will hold office for a period of five years. One-fifth of the members will retire every year by rotation. At first the jurisdiction of the Committee will extend to 7 public sector undertakings, viz. Damodar Valley Corporation, the Industrial Finance Corporation, the Indian Airlines Corporation, the Air India International, the Life Insurance Corporation, the Central Warehousing Corporation and the Oil and Natural Gas Commission. Government companies formed under the Companies Act also are proposed to be placed under the Committee's purview.

Budgeting for Public Enterprises

Parliament is responsible for the money invested in the public undertakings and should have all the information relating to their working to discharge its responsibility. So far as departmental undertakings are concerned, their finances are integrated with the Ministry concerned, but as regards Corporations and Companies the position is different. The explanatory memorandum, issued along with the annual budget, contains a statement showing the investment made in a particular undertaking and proposed to be made during that budget year. The Government also issue a brochure which reports result of working of

industrial and commercial concerns of the Central Government other than departmentally-run undertakings. It does not contain profit and loss accounts and balance sheets of the concerns. The concerns, which are run departmentally, prepare their budgets which form a part of the annual budget. The concerns which are organised in the form of corporations or companies do not prepare their budget. Their summary results are given in the Explanatory Memorandum. This double standard of budgeting—one of departmental undertakings and the other for public corporations and Government companies is undesirable. Mr. Roy, the Comptroller and Auditor-General of India, in a speech delivered before Legislative Assembly of Gujarat on 11th October, 1961 said, "by creating Corporations and Companies large sums of money and large spheres of State activities are kept outside Parliamentary control to which the other Government departments are subject. For instance, let us take the Hindustan Steel Company. Government is spending about 600 crores of rupees and when the company is in operation and attains full production perhaps its receipts and expenditure would be of the order of Rs. 50 crores a year. All that the Parliament will be entitled to, is discussion of its annual report and the annual balance sheet. It is quite true that if it were a public company that is all that the shareholders would get. But, I have no doubt in my mind that if this very project had been carried out departmentally, the Parliament would have had much greater, wider, effective and detailed control over the expenditure. This is a problem which attract the attention of the Legislators. . . . At the same time it does seem, having regard to the very large scale financial activities of these organisations, that some effective form of parliamentary control exist over their activities. There should not be a feeling, 'Oh we are a corporation, at least we are outside the tentacles of Government audit, we are outside the legislative control, we can now do what we want, what we jolly please'. That kind of a feeling should not be allowed to grow".

The control of Parliament over corporations and companies is not effective. The Estimates Committee in its 73rd Report observed that, "considering the huge investments of public funds in the Public Undertakings, the existing methods available to

Parliament of keeping itself fully informed about these undertakings are neither adequate nor satisfactory. Under the existing arrangement Parliament does not get a comprehensive picture of the undertakings. Firstly, as pointed out above there is no consolidated information available with regard to the total investment made by Government in the Public Undertakings and the subsequent changes made therein by way of addition or withdrawal. Secondly, no consolidated information is available with regard to the working of the undertakings and the net effect thereof on the national economy of the country. Thirdly, even with regard to individual undertakings Parliament does not get information in time with regard to their working and the state of their present condition and even when the information is made available, it is found to be very often inadequate. There is, therefore, a real need for improving the methods of furnishing information to Parliament about the public undertakings".[16] Now so far as information regarding public undertakings is concerned this lacuna has been removed upto some extent.

It is essential that Corporation and Companies established by Government should come within the ambit of budget. The Estimates Committee in its 20th Report recommended that, "the industrial undertakings should prepare a performance and programme statement for the budget year together with the previous year's statement and that it should be made available to Parliament at the time of annual budget". The Committee further recommended that "these bodies might also be encouraged to prepare business type budgets which could be of use to Parliament at the time of budget discussion". The Estimates Committee recommended that the following particulars may be furnished in the budgets :

(*i*) the principal objects of the undertaking,

(*ii*) their current principal activities,

(*iii*) achievements in physical terms during the previous year and the programme of achievement in physical terms during the current and following years,

(*iv*) result of operations in financial terms during the pre-

[16] p. 2

vious year and the anticipated results during the current and the following years,

(*v*) a brief analysis of the balance sheets of the undertakings, and

(*vi*) explanation for wide variations.

The Committee annexed two specimen forms of the budgets used in the U. S. A. in respect of Public Corporations. These forms are very complicated and need simplification.

The Internal and External Budgeting in Public Enterprises

The problem of budgeting in public enterprises should be looked into from two different angles—one, internal budgeting and secondly, external budgeting. Internal budgeting means preparing of business budgets needed for efficient administration. Budgets, like sales budget, production budget, financial budget, manufacturing capacity budget, etc. should be prepared by departmental managers and be approved by the General Manager. There is no need of Parliamentary control over these internal budgets, because that will amount to interference in the internal affairs of such undertakings.

The second aspect of budgeting, that is external budgeting or general budgeting, should be under Parliamentary control. Subsidiary budgets should be prepared, one each for every undertaking, and they should be annexed with the annual budget. This practice will encourage orderly financing of Government enterprises and curb the reckless handling of public funds by irresponsible management. The net surplus or deficit should be carried to general budget as surplus or deficit of railways was shown or it may be carried to a general fund after paying dividend to the Government at the rate at which Railways pay. As regards the form of the budget, the most simple form will be the one prescribed for Profit and Loss account and Balance Sheet under the Indian Companies Act. However its column would be adjusted to give them a budget-form. The columns can be adjusted as :

Accounts	*Budget Estimates*	*Revised Estimates*	*Budget Estimates*
1962-63	1963-64	1963-64	1964-65

For adopting this type of budgeting, the public undertakings should have a common financial year, the same as that of the Government.

BALANCING THE BUDGET

The problem of balancing the budget should be considered from the following points of view :

(*a*) Long-period and short-period.
(*b*) Deficit on capital account and Revenue account.
(*c*) Nature of economy.

(*a*) *Long-period and Short-period View*

When governmental expenditure exceeds governmental revenue, the problem of balancing the budget comes before the Finance Minister. The Finance Minister has to take a number of factors under consideration before resorting to some measure of balancing the deficit of a budget. If the unbalanced budget is a permanent feature or it is expected that such budgets will continue for a number of years, a permanent solution is needed for balancing it. For this, increased taxation is an appropriate measure, because indefinitely we cannot go on borrowing either from the public or from the Central Bank for financing the deficit of a budget. The increase in taxation under such circumstances will increase national income, because public expenditure will help in increasing production and income of the people. It is wrong to think that transfer of purchasing power from private sector to public sector will adversely affect the national income. In fact, multiplier effect of public expenditure in favour of national income will be more than the multiplier effect of taxation on national income, causing a net increase in the national income. Besides, if government covers the extra expenditure by taxes, it will not have any inflationary effect on the economy, because taxes will reduce purchasing power of the people and there will be some increase in national income.

So far as short-period budget deficit is concerned, it is better that the tax structure of the country should not be disturbed. For meeting the casual budget deficit of a year or two, it is better

to create a 'Budget Stabilization Fund'. From this fund, such deficits may be met. This fund may be created out of a surplus of prosperous years.

(b) Capital and Revenue Budget Deficits

The budget deficit, on revenue account, should, as far as possible, be met by increasing governmental income or by short-period borrowing. Revenue expenditure of a recurring nature should be met without creating fresh credits unrepresented by fresh assets.

For budget deficit on capital account, measures like borrowing—internal and external, deficit financing may be adopted, because such credit creates assets. Out of the income to be derived from projects on which capital expenditure is being incurred, the provision for interest charges and repayment should be made. Such expenditure being productive, helps the economy in expanding production as well.

(c) Nature of Economy

In an economy which is underdeveloped and has unutilised economic resources with a shortage of capital, deficit financing and external assistance are nice ways of making up budget deficits. This will create demand for labour and material and thereby augment production and employment. In such an economy, there is a tendency of government expenditure to increase due to increased responsibilities of the government. There is also a possibility of increasing taxation. Hence increase in expenditure on revenue account should be balanced by an equal increase in taxation.

In a developed economy, if there are surplus funds with the public, for lack of investment opportunities, they should be mopped up for meeting budget deficit. Funds from banks can also be borrowed for the purpose. The nature of the measure will also depend in a developed economy on the nature of business period—whether it is boom or depression and the state of private industry.

PUBLIC EXPENDITURE

At the time of budget preparation, every Ministry puts proposal

of expenditure on different projects and schemes. As the resources of the Government are limited, every proposal cannot be included in the budget. The task before the Finance Ministry, then comes to that of selecting only those projects which are of greater importance. A 'Choice making' phenomena which are found in the case of an individual are also found in the case of Governmental finance. When a Ministry prepares its budget, several proposals are put by different authorities and a choice is to be made of those proposals which are to be included in the budget.

Now the question arises, what should be the guiding principle in selecting proposals for inclusion in the budget out of the lot. According to Economic Theory, the selection of proposals for expenditure should be on the basis of "Marginal Principle". A project or scheme supposed to give greater marginal benefit to the public should be given preference over others. But there are difficulties in its practical application. It is difficult to assess the marginal benefit. However, the technique of Social Accounting can help in weighing the utility of expenditure. This technique will greatly help in devising a policy for selecting proposals of expenditure for inclusion in the budget. Harold W. Guest observes, "These difficulties (in allocating public expenditure) can be cleared away only as it is made possible to think in definite quantitative terms of these other values that cannot be described adequately in terms of price. That such may be the case soon is to be most fervently hoped".[17]

In practice, political, rather than economic, reasons are more weighty in selecting proposals. In a democracy, this practice is inevitable, because, after every five years, the Government has to go to the public for votes. It will be in the interest of public money, if economic reasons are also given due importance.

As regards estimating public expenditure, its correctness depends largely on the accuracy of the estimation of real needs by department. As far as possible, estimates should be compiled in detail and not in aggregate, if accuracy is to be obtained, because the totals consist of detailed items and errors, in the total estimates, can be avoided only by a careful study of the detailed requirements. There should be check against needless

[17] 'Public Expenditure', p. 173

padding to ensure adequate funds. The estimations are to be based on the past and the present spending, but the past should not be followed blindly. Future expenditures should be estimated with reference to future needs and conditions with such guidance as the past and present may give. The estimation of expenditure requires decision making at different levels. In a democratic set-up, it is better if Ministry-wise Committees, and Unit-wise sub-committees are formed for discussing issues, etc. concerning estimation of expenditure. Such a course will result in efficient and speedy estimation of expenditure.

The estimates of expenditures prepared by Governmental agencies in India are as defective as that of revenue. Every year the Accounts and Audit reports and Reports of Public Accounts Committee show that expenditure in a number of cases is in far excess than the budget. The Public Accounts Committee (1959-60) in its 23rd Report (Second Lok Sabha) stated in regard to Ministry of Home Affairs Grant No. 61, "The Committee observes that the actual expenditure in this case was nearly four times the amount provided in the final grant. They are surprised to find that the operation of this scheme should have turned to be more intensive than was originally anticipated. It is obvious that the estimation has no relation to the actual requirements. The Committee also deplore that those incharge of implementation of the scheme should have incurred expenditure far in excess of the allotments without arranging for provision of funds by supplementary grants". At another place the Committee observed, "The Committee notes with concern that the excess in this case is nearly 81 per cent of the final grant and has been mainly under Pay of Establishment and Allowances and Honoraria, etc. for which there should have been no difficulty for correct estimation". Every year P. A. C. brings to the notice of Parliament cases of excesses over grants/Appropriations as disclosed by the Appropriation Accounts. Such cases are to be reported within two months but the Government fails in complying with this provision.

The Public Accounts Committee in its 9th Report presented to Parliament on March 31, 1961 stated that, "A comparative study of the figures of receipts and expenditure for the last five years has disclosed that in each year the actual revenue received

was appreciably in excess of the budget estimates. The expenditure was less than budget estimates". The Committee therefore called for correct budgeting that is correct estimation of revenue and expenditure. For estimation of expenditure, the administrative Ministries should be asked to work out the details of the various projects and schemes well in advance and in a scientific and realistic way for the inclusion in the budget estimates. Over budgeting and under budgeting both are equally defective systems. The Finance Ministry too should not relax its scrutiny to see that only such of the schemes and projects are included in the budget estimates as have a reasonable prospect of being carried through during the financial year. The Ministry of Finance should also implement the suggestion of the Comptroller and Auditor-General of India regarding lump-sum cut in respect of overall provision under a grant in respect of which savings are a recurring feature. Similarly where over expenditure is a recurring feature, provision should be modified. Beside, there is need for developing greater co-ordination between different agencies of the Government. It is also necessary that the estimation should be done on some scientific and realistic basis. New and better techniques should be evolved for making correct estimates as far as possible.

PERFORMANCE BUDGETING

The concept of performance budgeting has ushered in a new era in Government budgeting. Budgeting, like any other aspect of governmental administration, needs change and refashioning in the light of new problems and changed circumstances. In times, when the volume of revenue and expenditure was moderate and the range of governmental activities was limited, the traditional system of budgeting did well. But in modern times, there has been enormous increase in the development and welfare activities of the government and the volume of public revenue and expenditure has increased considerably. Under such changed conditions, traditional budgeting system needs a change.

The idea of performance budgeting, developed during the 1920's, and occasional references to this word was made in the

literature of budgeting. The term is associated with budget classification. Such a budget is based on functions, activities and projects. The main purpose of a performance budget is to improve public comprehensiveness of the budget in terms of the policy objective, it is designed to serve. Performance budgeting shifts the emphasis from the means of accomplishment to accomplishment itself. It emphasises the things which government does rather than the things which government buys.

Under the traditional budgetary system, expenditures are classified according to objects of expense. This classification shows what sums are to be spent on a particular item such as pay of officers, pay of establishment, etc. Such a classification is designed to help in the interest of financial control. Under this system of classification, there is no indication of the actual accomplishment of the government department expected for a certain volume of expenditure. If a sum of one lakh is provided for under the Head 'Civil Works' for 'Road Construction,' it is not disclosed how many miles of roads will be constructed out of that sum. The principal defect of the traditional budgetary system is that it does not tell, what physical targets will be fulfilled from the expenditure incurred on a particular head. It does not show estimates in terms of physical programmes of action, or cost per unit of work or cost benefit ratio. The performance budgeting helps in evaluating the effectiveness of the State Welfare activities in terms of cost and is regarded as an important tool both for the executive and the legislature in evaluating the benefit of government expenditure.

The performance budget is a budget based on functions, activities and projects which focus attention on the accomplishments, the general character and the relative importance of the work to be done and the services to be rendered rather than upon the means of accomplishment such as personnel, services, supplies, equipment, etc. The U. S. Bureau of the Budget, in an unpublished memorandum, defines a performance budget in these words:

"A performance budget is one which presents the purposes and objectives for which funds are required, the cost of the programmes proposed for achieving those objectives and quantitative data measuring the accomplishments and work

performed under each programme".[18] L. D. White states that, Performance budget, directs attention to ends not means, as the significant element in financial planning and expenditure authorization".[19]

Under performance budgeting, funds are granted for doing a specific quantity of work. It calls for specific performances for the funds appropriated. Performance budgeting implies that the budget statement should indicate the actual achievements expected by a Ministry over a period of time from a certain amount of expenditure. It focusses attention on the size and the cost of programmes to be implemented. This type of budgeting which is a modernisation of budget system, identifies the services and the cost of particular services. It emphasises the functions of the government in terms of programmes and projects. The essence of performance budgeting lies in the explanation of the activity pattern and work programmes of the Department, to which it relates. The cost of each programme or scheme and its corresponding benefits are placed in their proper perspective so that a comparative assessment of programmes can be made in regard to both, the cost and benefit realised. For example, in case of nationalised road transport, the budget may give figures regarding the mileage covered, cost per mile, the estimated number of passengers, number of vehicles, waiting rooms, etc. Similarly, budget of civil works may give details like :

A. Building and Bridges		*No. of Unit*	*Total cost*
A. 1 Building	Construction	cublic feet.	—
A. 2 Bridges	Repairs	"	—
	New Bridges	—	—
	Re-construction	—	—
	Repairs	—	—
B. 1 Roads	Cemented	Miles	—
	Tar	—	—
	Kuccha	—	—
	Repair & Maintenance	—	—
	Resurfacing	—	—

[18] J. Burkhead, *Govt. Budgeting*, p. 142
[19] Introduction to Public Administration, p. 244

Thus performance budgeting furnishes the public officials with a technique for explanation and justifying their contribution to the community. It strengthens the role of budgeting as a tool of management. This type of budgeting gives a great deal of information about 'what Government is doing'. It will centre government's attention on programmes and should help in avoiding waste and in making it cost-conscious.

Under performance budgeting, "the functions of various, organizational units would be split up into programmes and activities, sub-programmes and component schemes, etc. and estimates would be presented for each. Before this is done, the schemes and programmes would have to be set in terms of measureable end-products which may differ from scheme to scheme, cost would have to be carefully determined for each, and targets in physical and monetary terms would have to be fixed. This would facilitate a review of the performance and of the proposed programme and consequently for decision making at a high level and is particularly suited to the requirements of overall budgetary planning".[20] For proper budgetary planning due consideration is given during the budget process to the claims of all government programmes. It is considered essential that priority-programmes are essential to national development. They are to be financed from integrated government resources. Throughout the entire budget process, all proposals put forth by various departments are evaluated and authorization is made in terms of the ability of the government to finance its varied activities on a sound basis and in terms of the effects of these activities on the economic well-being of the people. Under performance budgeting the activities and programmes must be ascertained in terms of expected results, services have to be measured quantitatively and their total and unit costs determined. Performance data, accompanying all budget demands, provide a sound basis for the executive and the Legislature in allocating scarce governmental resources. This form of budgeting presumes that the work of departments can be expressed in terms of units, which are so necessary for budgetary judgements. Budget control in performance budgeting has a much broader meaning. It is

[20] Estimates Committee, 1957-58, 20th Report, p. 11

thought to be a means of getting things done in a definite quantity instead of putting a limit over expenditure.

Requisites of Performance Budgeting

It is now generally recognized, that an individual, no matter how well trained in his specialised field, cannot cope successfully with the demands of the budget system without technical knowledge concerning its operation and without devoting sufficient time to budgetary work to carry it out properly. The performance budget system, because of its significant role in the management of the government, demands specially qualified personnel for its successful operation, because such a system calls for new and added responsibilities on the part of management. Dr. J. Burkhead observes, "The performance budget enhances the role of management, but at a price—budgeting may no longer be treated as a peripheral assignment, but is now at the center of management responsibility, and the administrator must be willing to assume this responsibility. This should lead to an improvement in the quality and quantity of budgeting at the level of operations".[21] The performance budgeting places on management full responsibility for producing maximum results from funds expended and for achieving flexibility in the conduct of governmental affairs with the ultimate objective of service to the people. Heads of departments are responsible for adhering to the annual plans and policies contained in the budget and expressed through approved allotments and work plan. The adoption of performance budget system requires a reorganization of the role and duties of the Budget Division. It requires greater co-ordination between operating and budget-making agencies. It also requires a change in the nature of legislative review and authorization. Under the traditional budgetary system, the budget facts, presented to legislature, are readily understood, though such facts are unimportant for purposes of reviewing the nature of programme. If government fails to accomplish a determined quantity of work for a particular amount of expenditure, it is severely criticised at the hands of the legislators. Dr. Burkhead observes, "Under a performance budgeting system, costs are summarised by programme and the

21 *Ibid.*, p. 155

legislature must, of necessity, concentrate on the review of programme needs in relation to goals and accomplishments. Expenditure and costs are an integral part of this review and not an unrelated maze of figures. The legislature is better equipped to analyse and question proposals for expenditure, and the administrator is likewise better equipped to support and defend them. The programme budget helps the legislature to make major budgetary decisions with respect to the size and type of programme and the relation of one programme to another".[22]

Phases of Performance Budgeting

The performance budget process consists of four phases: (1) Planning or establishing performance objectives within specified objectives and limits, (2) Estimating or determining the amount of personnel, materials, services and facilities required to meet these objectives and the money needed to pay for them, (3) Reviewing or ascertaining that basic objectives resource requirements and amounts are accurate and conform to overall guides and limits, and (4) Operating or accomplishing approved objectives within the appropriation provided by Parliament.

1. *Planning.* To ensure full acceptance of responsibility for achieving the goals set forth in the plans, all responsible officials and supervisors regardless of organizational level should participate in planning agency operations. This calls for a high degree of co-ordination and integration at all levels from the Finance Ministry to the operating agency. The planning process should be:

(*a*) The Ministry of Finance may issue fiscal statements setting forth budgetary limits and major programme emphasis.

(*b*) The budget division should translate these policy statements into specific guides and limits in the call for budget estimates. In addition, it may issue technical budgetary instructions for the information and guidance of Administrative Ministries.

(*c*) The Chief Officer of the Department or Ministry should establish an outline of the programme of his department or Ministry within the limits of the general policies of

[22] *Ibid.*, p. 156

the Government. He approves programmes and goals of units under his department to be used as planning targets in preparing estimates for the budget year. He determines the overall amount within which detailed planning is carried on for the department.

(*d*) The budget division should prepare and review, with the help of Chief Officer of the Department or Ministry, a summary statement of preliminary plan, and integration and co-ordination of the programmes should be done at this stage.

(*e*) The Chief Officer accepts the work programme for the budget year as approved by Budget Division. He distributes the whole programme for the budget year so as to run the work continuously. For this, he is assisted by his department, which supplies factual data on work programme, rate of production, cost information and personnel data. He is also assisted in carrying out planning responsibilities, and in co-ordinating and scheduling work for the budget year for the whole department.

2. *Estimating.* This process requires the determination of the amount needed to carry out the programmes. The Budget Division plays the key role in the satisfactory preparation of the estimates. For this purpose, it develops intimate contact with other Ministries and directs them regarding the material they should prepare and its form and manner of preparation. A detailed, step by step, schedule for accomplishing work is also prepared.

3. *Reviewing.* This phase of budgeting involves rechecking of data and analysis of budget estimates to ascertain the accuracy of basic objectives and resource requirements and confirmation with established guides and limits. Here too the budget division holds the key position and is responsible for preparing a schedule for detailed review of all estimates. It makes a detailed analysis and points out where estimates are not realistic or exceed limits previously determined. Estimates are then modified according to the decisions reached in the process of reviewing.

4. *Operating.* This phase of budget process involves the accomplishment of established objectives within the appropria-

tions made by Parliament. At this stage the budget becomes a central instrument governing programme execution for a fiscal year.

Basic Steps in Performance Budgeting

The steps involved in the installation and operation of performance budgeting are :

(1) It is necessary to develop for each agency a significant programme which is meaningful for management purposes.

(2) Programmes are sub-divided into projects. It is necessary to follow the process of breaking down programmes and costs upto the smallest units so as to facilitate estimation. A project represents a principal function or activities which describes the work to be done.

(3) After the determination of projects, units of work measurement for each project are determined. A unit of work measurement indicates the extent of accomplishment of the end product of all the separate operations conducted under a project. It represents group output as distinguished from other units of work measurement which may be applied in determining the efficiency of the individual.

(4) The sources of funds for a programme are identified.

(5) Expenditures for the past and current years over projects and schemes are compared and adjusted according to prevailing circumstances.

(6) Previous records of accomplishments for each project are reviewed. This is necessary in order to find out what was accomplished in the past year, what is expected to be accomplished in the current year and what results are desired in the budget year.

(7) A system of internal reporting is to be installed in each agency so that progress of work may be measured in comparison to work plans.

Budgetary Control in Performance Budgeting

In performance budgeting there is need for agencies to establish an adequate management control system over both expenditures and work accomplishment. This calls for specific delegation to supervisory officials of authority and responsibility for

the accomplishment of established work goals. Each departmental head maintains a system of management control, adequate to establish effective internal guidance over both expenditures and work accomplishment according to plan and policy. This also serves as a guide to departmental heads in formulating remedial measures for unfavourable deviations from work plans. The budgetary control system, thus adopted, assumes that the responsible officials see that funds are used effectively to carry on work as per schedule. For this performance, recording system is also established under it and a complete and up-to-date record is maintained of amount of expenditure incurred and quantity of work accomplished.

Performance Budgeting in India

The performance budgeting in Government is not a destination but a pilgrimage. This is so because despite all the difficulties encountered in the installation of performance budgeting system, it has got one very great advantage and it is that it can be introduced in a step-by-step process over a period of years. It does not rule out the existing budgetary procedure and the information and material contained in existing budgetary statements. What is required is the presentation of additional statements containing information in terms of work programmes and their costs. Thus performance budgeting does not involve a radical departure from existing budgetary methods, but only a re-organization of the existing procedure to meet the requirements of the changed circumstances. The future of performance budgeting is hopeful specially in underdeveloped and developing countries because of the desire of the people and their leaders to control their budget for a better and more effective public service. It is a good technique for accomplishing the maximum from the limited resources of the Government. This provides a basis for democratic control over the policy, programme and cost of Government.

In our country, when we have embarked upon a series of Five-Year Plans for economic and social development, it is desirable that we should reshape the budgetary tool to meet the needs of the hour. In planning, we have to define our goals, assess the available resources and select from alternative programmes,

those programmes which can best attain those goals. Hence a comparative evaluation of programmes is needed, and such evaluation requires an improved method of budgeting. In this age of economic planning, performance budgeting is of special use to our economy. The welfare activities of the State and the ideal of the democratic socialism which we have envisaged for our country can be achieved if we fashion and reform our existing budgetary practices on performance basis. This will help in placing in the proper perspective, the cost and benefit of development schemes like river valley projects, roads, rail development, industrialization plan, etc. The Estimates Committee, in its 20th report suggested, "that the performance cum programme system of budgeting would be ideal for a proper appreciation of the schemes and outlays included in the budget, specially in the case of large scale developmental activities. At the same time, it has to be recognised that its introduction might involve a number of changes in the existing budget practice besides a review and analysis of the current activities of each Ministry and Department in terms of specific programmes and sub-programmes and the determination of performance units in terms of which the schemes targets and accomplishments would be measured. It would also mean a substantial revision of the classification of accounts so that the accounting system may be in line with the programme-wise allocation of funds. These changes would require considerable time for determination as well as for implementation. The performance budgeting should, therefore, be the goal which should be reached gradually and by progressive stages without any serious budgetary dislocation".[23]

Thus there is need for gradual adoption of performance budgeting in India. This technique, in the initial stages, should be adopted at least in those departments, the out-turn of which can easily be measured in definable units, like Civil Works, Education, Agriculture, Community Development, etc. In certain departments, like Administration, the application of performance budgeting technique presents certain difficulties, because the actual performance of these departments are not easily measurable. Hence, in the beginning, performance budgeting

[23] p. 12

should not be applied to such departments. The application of performance budgeting involves the calculation of unit costs in respect of various developmental programmes; hence the use of detailed cost accounting is inevitable. This will require technical persons whom our country lacks. Hence persons involved in the budgetary process should be trained in the various techniques involved in adoption of performance budgeting and it should be gradually integrated with the existing budgetary system.

CHAPTER IX

BUDGETING FOR ECONOMIC DEVELOPMENT

BUDGETING AS AN INSTRUMENT FOR ECONOMIC DEVELOPMENT

GOVERNMENT BUDGETING, of late, has undergone complete reorientation. Some 25 years ago, government budgets were only money-getting machines. But since the beginning of the last war they have undergone a revolutionary change; their character has been changed, their purpose has been changed and they have acquired some economic significance. Budgets have long ceased for well organised governments to be mere balancing of the annual accounts of a nation; they are the instruments for growth or regulators of economy. Budgets have become instruments for breaking new grounds and evolving a new economic thinking. Now new theories of Economics have come on the scene and they say that budgets can be very well utilised for planning long-range economic development. They have recognised the hitherto unrealised possibilities that budgetary measures can be used on occasions for regulating the economy, for taking the economy to a further stage of development and for so many other purposes. It is also pointed out that the modern budgets of a country, which is underdeveloped and trying to march on the rough and tortuous road of economic development, have become real means of guiding the country.

In almost all the countries, the government has come to assume increasingly important role in determining the level of economic activity. It is, in modern times, entrusted with the responsibilities of conducting development programmes and maintaining full employment of the available men and material resources in order to contribute to current and future levels of the country's productive capacity. It is also expected to enhance the pace of capital formation in the country through special attention to long-term investment projects which do not attract private capital. The presentation of its programme and more specifically its budgets, therefore, assumes special importance, because, "comprehensive economic policy is impossible without a

proper system of financial planning and reporting at all levels of government".[1]

Hence a budget is not merely a financial estimate of revenues and expenditures of the government. It is something more. The whole policy of the government is reflected in the budget. A budget is a reflection of the economic conditions of the country. Through government budgets, great improvements can be done in the economic conditions of the people. The great powers of today achieved higher economic status only with the help of budgets through which their policies were implemented and the process of economic development was initiated, and it is due to their economic power that they have great political power. Great programmes of economic development have been undertaken in European countries and the United States with the help of budgetary techniques. Dr. Burkhead observes, "The development of budgeting in Western Europe and in the United States was part and parcel of the economic development of these countries... of industrial, of the growth of the national government, of the development of skills in accounting, finance and administration. Public budgeting has paralleled the political and economic changes in the structure of societies . . . the development of government budgeting has assisted and accelerated economic and political changes which were in progress".[2] A. E. Buck has cited the case of Japan, a rapidly developing country which introduced as early as 1889 a budget system as a means of rationalising and controlling Government activities. In that country Government budgeting appears to have led and not lagged in the process of economic development.[3]

Government budgeting as an important tool for initiating and making economic development in a country. With increased governmental responsibilities in the economic and social field and with greater and greater intervention by the State in the economic affairs of a country, the importance of government budgeting as a tool for economic development has increased. At the time when governmental responsibilities were few, the State was regarded as a police State and government intervention

[1] U. N., *Budgetary Structure and Classification of Government Accounts*, Preface

[2] *Government Budgeting*, p. 456

[3] *The Budget in Government of Today*, pp. 35-36

in the economic field was condemned, government budgeting was either non-existent or designed solely to serve limited governmental responsibilities. The modern government which is regarded a welfare State, specially in underdeveloped countries, has to shoulder greater responsibilities for providing a better standard of living to the people. In order to better the standard of living of the people, government has to play leading roles in planning and implementing programmes for development. In this task, budgeting and budgetary process are major instruments. In countries, where a system of mixed economy has been followed, a major part of government budget is devoted to the activities of the public sector, while the private sector is also helped by making provisions in the budget for loans, grants and subsidies to be given to the units of the private sector.

Economic Development of Underdeveloped Countries and Their Problems

In very simple words, economic development means creation of those economic forces which are necessary to lift the economy from one state of equilibrium to another at a high level. The essence of economic development consists in raising the standard of living of the people and growth of output per head of population. In an underdeveloped country, there is the chief problem of lifting the stagnant economy to a stage from where economic development can take place automatically. In the course of the last two decades, there has been a vast increase of interest in the economic development of the underdeveloped countries. An underdeveloped country is one which is under-equipped with capital in relation to population and natural resources. The rate of growth of employment and investment in such a country lags behind the rate of growth of population. The resources are not only unemployed but also underemployed. The standard of living of the people stands at a very low ebb because of a vicious circle of poverty.

There are various conceptions regarding this vicious circle of poverty. Some argue that the low level of income renders saving impossible and thus prevents the capital accumulation necessary for an increase in income. It is also argued by some others that the narrow market of low income countries obstructs the

emergence and extension of the specialisation necessary for higher income; that demand is too small to permit profitable and productive investment; that government revenues are insufficient for the establishment of effective public services; that malnutrition and poor health keep productivity low, and prevent a rise in income. In a study prepared for an official United States Committee by the Center for International Studies of the Massachusetts Institute of Technology, causes of the vicious circle are stated in these words: "The general scarcity relative to population of nearly all resources creates a self-perpetuating vicious circle of poverty. Additional capital is necessary to increase output, but poverty itself makes it impossible to carry out the required saving and investment by a voluntary reduction in consumption".

The vicious circle of poverty operates to constrict the formation and accumulation of capital rendering an underdeveloped country under-equipped with capital in relation to its population and natural resources. The circle operates like this : there is low level of real income of the people, this lowers their buying power and saving capacity, thus resulting in low rate of capital formation, it creates lack of capital, which in turn lowers productivity, and low productivity is a cause of low real income. Thus the circle is complete.

The vicious circle of poverty operates on both the supply and the demand sides. On the supply side, the low level of income is the cause of low productivity. This is due to shortage of capital and shortage of capital is due to low capacity to save which, in turn is due to low level of incomes. Thus the cycle is complete. On the demand side, low productivity is due to low demand which is due to the small purchasing power of the people.

Whatever the nature of the vicious circle of poverty may be, it is obvious that there are certain obstacles which have arrested the economic growth of an underdeveloped country. The free growth of the economy is possible only when these obstacles are removed. The obstacles are, high propensity to consume and low propensity to save and low level of living—a majority of population living on bare subsistence level. In the field of production, there is no developed productive apparatus, no modern

techniques and no perfect organisation. The productive system lacks elasticity and is incapable of quick expansion. There is unemployment of unskilled labour on the one hand while there is keen shortage of technical hands. It is generally accepted that the application of capital is one of the conditions necessary for breaking the vicious circle of poverty. This implies the creation of conditions favourable to the internal formation of capital and to the attraction of external capital.

The obstacles can be removed and favourable conditions can be created by drastic governmental action. The economy, left to itself, will not be able to get itself freed from the arrested growth. Prof. Paul A. Samuelson writes in 'Economica', "They (the backward nations) cannot get their heads above water because their production is so low that they can spare nothing for capital formation, by which their standard of living could be raised". The government with its budgetary weapons can fight out the problems facing the development, and can change the stagnant economy of the country into a dynamic one.

PROCESS OF ECONOMIC DEVELOPMENT AND APPLICATION OF FISCAL AND BUDGET TECHNIQUES

There are certain aspects of economic development which are closely related with the fiscal and budget techniques. While applying measures for economic development one thing should always be kept in view that development will not come without effort, hardship and sacrifices, no matter how much help may come from outside or what ever effective measure is adopted.

Economic development should go on, in what direction is a question, the answer to which will depend upon the nature of economy of the country. It is wrong to think that economic development is synonymous with industrialisation, but it applies to all sectors of an economy and implies a relative change in their order of importance with the application of modern technology raising productivity per worker and releasing surplus labour to other productive tasks. For a balanced economic development of a country it is necessary that all sectors; agriculture, mining, manufacturing industry, commerce, services; should advance. Industrialisation is only a part of economic development no doubt a

very important part, and there is close inter-relationship between all the parts. Underdeveloped countries are characterised by a high degree of subsistence production with a very limited application of technological knowledge, as a result industry is relatively unimportant and the agricultural sector is paramount. In such underdeveloped countries, before starting industrialisation, it is necessary to strengthen and improve the agricultural sector. In the initial stages too much emphasis, that too at the cost of agricultural development, should not be laid on industrialisation. Through industrialisation, all the ills of underdeveloped countries cannot be removed. The development of agricultural sector in such countries is of special importance because it is the pivot of economic development as it provides certain raw materials to industries and also food to the industrial population. For this, substantial investment in agriculture is required. Besides, funds are also required to create social overhead capital or infra-structure which is so essential for economic development. The infra-structure consists of such installations as ports, railways, roads which do not produce commodities directly but promote economic activity generally. The absence of this infra-structure in underdeveloped countries is supposed to present a particularly intractable obstacle to economic progress, because without these installations economic development is impossible. The high cost of construction, meagre and delayed, return on the investment on it and the lengthy period of fulfilment required in establishing the infra-structure do not attract private investors. Thus a huge capital is needed for improving agriculture, for starting industrialisation and for creating infra-structure.

But underdeveloped countries have acute shortage of capital. The rate of capital formation is very very slow there, due to low level of income. Hence there is need for creating and accumulating capital in the governmental sector. For this budgetary techniques like increased taxation, public borrowings, deficit financing, etc. are used. In an underdeveloped country, there may exist a large non-monetised sector and the people in the rural areas may be accustomed to a simple barter system. Under the barter system taxation is avoided. Hence gradually this sector is to be monetised so as to bring the people living in the rural areas under taxation system. In the process of economic

development, certain sectors are likely to benefit and therefore, they should be made to pay more taxes. Money injected into circulation through heavy public investments on infra-structure and other projects will tend to increase price level, because in the early stages output will increase at a slower rate than the rate of capital investment. Hence, through taxation, money going into circulation must return immediately to the government without creating big price increases. As regards public borrowings, in the early stages their volume will be very low in an underdeveloped country. With the increase in income-saving ratio, public borrowing will be greater and add to the national capital to be utilised in the furtherance of economic development. Another budgetary technique for getting capital for development schemes is deficit financing. Deficit financing means that the government is spending in excess of revenue and the deficit is being met by drawing money from the Central Bank of the country. This leads to creation of money. Deficit financing is helpful in initiating the process of development where a large volume of unemployed resources exist. It will also bring about an expansion of the monetised sector. The main danger from deficit financing is from inflation. The economy may have to face inflationary pressure if the excess propensity to consume does not correspondingly lead to an increase in the level of output due to some bottle-necks of the economic system. The possibility that price level, rather than the level, of output may increase as a result of deficit financing has often created more problems than it has solved. For successful deficit financing there should be correct forecasting about the possible developments in future in the field of production and consumption. If forecasting is correctly done and price level does not materially increase, the deficit financing will become a blessing for economic development.

By creating capital in the public sector, big schemes of industrialisation can be undertaken. This will augment production which is so badly needed in underdeveloped countries for raising the standard of living of the people. Fiscal and budgetary techniques should be directed to the end of increasing production in the public as well as in the private sector. Provision should be made in the budget for establishing industrial under-

takings in the public sector and for giving help in various direct and indirect ways to the industries of the private sector. The government, through its policies, should divert the investment of the limited capital into socially desirable directions. As the amount of capital is limited, it is of great importance for rapid economic development that it flows in the right channels. Utmost care is necessary in selecting lines of investment. For raising the standard of living of the people, it is necessary to increase their incomes. Incomes should increase to enable people to purchase more and more goods to satisfy their wants. If production is less than the total incomes to purchase it, there is danger of inflation; on the other hand if the total volume of incomes is less, there will be no incentive to produce more. Therefore, in the intial stages of economic development, it is essential that income and production both increase simultaneously.

It is also essential that the investment of capital should result in full and quick fruition, so as to check inflationary pressure. Delayed fruition will result in imbalance in the economy. There is need for both cost-conscious and time-conscious investment; first, because capital is limited and secondly, because quick returns are needed. It is necessary that every rupee of investment goes to the farthest and produces the quickest possible result. Projects which would take an unduly long time to come to fruition are to be given a low order of priority. Investment must be such as to produce sure and quick results so that the time lag between investment and the appearance of results on the life of the people is minimised. High priority must be given to those projects which are commonly known as impact projects, that is, projects which come to fruition quickly and of which the impact on the life of the people is favourable. This is sound from the both, the economic and the social points of view. It is economically sound because the people get the rise in the standard of living quickly and they come nearer the standard at which they can start saving, needed for further investment. It is sound politically because people, who make sacrifices by way of taxation or saving or as a consequence of inflation, and when the results of investment which are visible quickly, feel compensated and may be inclined to support other schemes with enthusiasm.

An underdeveloped country has a high propensity to consume and a low propensity to save. In spite of the best efforts on the part of the government to augment production there will be shortage of commodities in the market, because in an underdeveloped country, the propensity to consume increases at a rapid rate. Thus the government should check consumption and also create an incentive for saving. Consumption can be checked by imposing consumption taxes, i. e. taxes on commodities, and creating saving schemes more attractive than the benefit to be derived from consumption. The people may be attracted by adopting suitable saving schemes so that they may voluntarily postpone their present consumption for the sake of future gains. For increasing savings of the community a policy of compulsory saving should be followed.

Unemployment is another great problem which faces an underdeveloped country. This is, to some extent, due to large populations. But population pressure need not prevent development, rather it should help the process of economic development. The vast human resources are a great economic asset and must be fully utilised. The humanity is capital-absorbing as well as being (by work) capital forming. Large number of persons, regarded as curse, may turn into a blessing provided a proper use is made of them. With the advancement of science and technology, there has been great increase in the productive capacity. With chemical fertilisers, one acre can produce ten times the present yield. With chemical fibres and new automatic machines, production of cloth can be increased and multistoried buildings can be constructed for shelter. Thus their need for food, cloth and shelter may be fulfilled with a better productive system. In such changed circumstances it is wrong to think that a large population is a curse. The histories of Belgium, the Netherlands and Japan, among others, suggest that large populations do not in themselves stifle economic development. What is needed is the people's enterprise and initiative, their inventiveness, their level of technical knowledge and above all their willingness to make necessary sacrifices to attain economic development. Material resources are quite passive, human resources, and their quality are rather more important. Possession of resources are permissive rather than

deterministic. The outlook, adaptability and desire to advance on the part of the people are of great importance. Only those nations can prosper, the inhabitants of which possess these qualities. With the attainment of economic development, growth of population will automatically be checked. With industrialisation and urbanisation, development of education, etc. the growth of population will decline. With industrialisation and development of agriculture, there will be greater employment opportunities, and gradually the unemployment problem will not remain serious.

In the process of economic development of an underdeveloped country, the government is also confronted with the problem of fair distribution of the fruits of development. Total production or production per capita may increase still the common man may not be benefited. In order that the fruits of development may not be eaten up by a few there should be fair distribution of the resultant increase in the national income. An underdeveloped country is characterised by large inequalities in the distribution of income and wealth. The inequalities will be enhanced if fruits of development are confined to a limited number of people. Inequalities further increase if there is flow of foreign assistance in huge amounts and there is dishonest administration in the country. Through budgetary techniques, these inequalities have to be reduced. The sector benefiting more than others should pay more taxes, while social security measures should be adopted for the people who are poor and backward.

Government Budgeting Techniques for Economic Development

For initiating economic development, specially in an underdeveloped country, budgeting needs complete reorientation. It has three aspects, viz. (*a*) reorganisation of budgetary organisation, (*b*) reorganisation of budgetary structure, and (*c*) reorganisation of budgetary policies.

(*a*) *Reorganisation of Budgetary Organisation.* There has been enormous growth of governmental organisation in recent times, specially in underdeveloped countries. This is due to increased governmental responsibilities in the field of foreign relations, national defence, economic and social develop-

ment. A number of new departments have been added to the governmental machinery in order to cope with the new tasks assigned to government in a welfare State. In order to maintain efficiency in such a big and ever-increasing organisation like government, there is need for efficient communication and control system. There is also need for central budget organisation, a well articulated budget procedure, a responsible accounting and audit organisation for orderly administration of the budget system. It also requires a proper delegation of authority in budgetary matters.

(*b*) *Reorganisation of Budgetary Structure.* To cope with the increased work caused by increased governmental responsibilities, there is need of reorganisation of budgetary structure. With the creation of the public sector, which has been assigned greater responsibilities in the field of industrialisation, huge sums are to be spent on the public sector projects. This expenditure is mostly of a 'capital' nature. For this, double budgeting practice is suitable. It means preparation of two budgets, one for capital transactions and the other for revenue transactions. In the later stages of economic development, the budgets may be supplemented by national income and social accounts and an economic character classification of government activity and by other significant data. Since the budget is the core of the government's financial programme, it is desirable to present it in a way that allows not only internal co-ordination and comparability among different financial programmes, but allows as well, an appraisal of the economic implications of the several budgeted programmes, i.e. the implications for employment, output, investment, price level, foreign trade balance, etc. This can be achieved by supplementing the conventional functional classification of the budget with an economic character classification. National income accounts are very useful for developmental planning. Social accounts give an appraisal of possible growth rates. With the growth of governmental activities, it also becomes necessary to make the budgetary classification flexible and according to changed needs. For centering attention on the developmental programmes, a separate category of budget expenditure may be established which may specifically be called as 'developmental'. There is also greater possibility

of application of performance budgeting step by step.

(*c*) *Reorganisation of Budgetary Policies.* When government is engaged in a long-range development effort, effective policy-making requires data, showing both the absolute size and types of annual development outlay in a well-defined manner. The budget is the obvious source of such data. This is so, because of the new significance that government finance has assumed responsibilities for carrying out development programmes. With the changed responsibilities of the government, application and techniques of budgetary policies also change. As discussed in the earlier paragraphs, the main problem before the government of an underdeveloped country is of capital formation for industrialisation. Government should adopt suitable policy for inducing domestic capital formation and inviting foreign capital on suitable conditions. Government have also to play an important role in resource allocation, diverting investment in right channels and co-ordinating the activities of the private and public sectors. Units of the private sector are to be encouraged through tax concession, subsidies, protective tariffs and the like. While taking steps for inducing capital formation, government have to see that it should be achieved without sacrificing the existing standard of consumption. In an underdeveloped country where people live in extreme poverty almost on subsistence level, any effort to cut consumption would result in further degradation and lowering the standard of efficiency. In such a country what is required is to limit the increase in consumption and the standard of living must increase gradually. Whatever limited savings are found should be taken up by issuing government loans or a portion thereof may be taken up through the taxing process.

In a developing country, finances of development schemes can also be gathered through taxes. As the taxable capacity of the people is limited, tax ratio should increase gradually. In underdeveloped countries, the ratio of taxation to national income is generally 7 to 15 per cent. Under such circumstances, a modest increase in the aggregate of taxes can make substantial increase in the development expenditure. In a country in which the ratio of taxation to national income is 12 per cent, with one-third of these taxes being utilised in development

expenditure, an increase of only 2 per cent would raise the government's development expenditure by 50 per cent. Taxation in a developing economy will mobilise surpluses and will also prevent inflation. But it should not affect adversely the people's desire and capacity to work, save and invest. For this, preference should be given to taxes on commodities rather than on income and profits. In certain countries, governments have undertaken social insurance or life insurance or banking systems. That also helps in mobilising community's savings and its utilisation in projects of development. Very often, these systems can be strengthened by raising the rate of contribution modestly and the accumulation thus made available, may be used by the government for developmental purposes.

Inflation is bound up with economic progress. Every effort should be made by the government to check inflation, because it affects adversely certain sectors of the economy. It is no doubt that a mild inflation causing 3 to 5 per cent rise in the price level a year will encourage development, and will produce healthy effects on the economy. Such a mild inflation acts as a lubricant to economic growth. A gradual rise in price level will create higher margin of profit to entrepreneurial activity. Government should take proper steps to take a major portion of this higher profit by way of taxation. Economic growth is an uneven process. One sector advances at a faster rate than other sectors. It is, therefore, essential that a balance is achieved in the development of all the sectors through governmental policy. It is essential that the government should make "increasing use of fiscal policy to increase the volume of savings available for economic development, to counteract inflationary pressures which may result from rapid development and to mitigate fluctuations in income and activity originating from rapid changes in demand and prices".[4]

Economic development places a high degree of responsibility on governmental organisation. This is a difficult task to be performed. Budgetary techniques are a small but important and influential instruments for helping in the performance of this task.

[4] U. N., 'A Manual for the Classification of Govt. Accounts', p. 3

CHAPTER X

BUDGETARY REFORMS IN INDIA

BUDGET, BEING a financial plan of the government machinery, is the very core of a democratic government. "The objectives of the budget should be to implement democracy and provide a tool which will be helpful in the efficient execution of the functions and services of Government . . . . The budget is a device for consolidating the various interests, objectives, desires and needs of our citizens into a programme, whereby they may jointly provide for their safety, convenience and comfort. It is the most important single current document relating to the social and economic affairs of the people".[1] The budget lays emphasis on the need for State programmes to be executed as efficiently as possible so that maximum results may be obtained for the money spent on them.

The functions of a modern government, specially in a welfare State, and in a country like India, have increased enormously, and they will continue to increase. The conception of the Welfare State is gaining new adherents. Government is regarded as an agency for promoting the general welfare of the people by positive acts. Modern government is not meant only for maintaining law and order in the country, though it is undoubtedly one of the essential functions of the State. Government has very many responsibilities in the field of social and economic welfare of the people. Government should organise its affairs in such a way that the resources of the country are suitably harnessed and exploited to maximise the net national product; and secondly, the distribution of the national product be so arranged as to maximise the welfare of the community as a whole. In order to achieve these ends, the State has to undertake multifarious activities with the result that the financial administration has become a matter of supreme importance. Hence any national budget system, which is the pivot of financial administration must be designed to carry out the legitimate activities of govern-

[1] Harold Smith, Quoted by F. M. Mark, *The Bureau of Budget*, 'The American Pol. Sc. Review' vol. XXXII No. 5

ment. The reorientation of State activities in this matter has been reflected in the rapid expansion of the government budgets and this has made it essential to devise an efficient system for controlling financial activities of the government. Government budget has become a significant statement of government policy and the major instrument for the expression of the government programmes which have wide ramifications in the national economy, in the governmental as well as in other sectors. It affects development and production, size and distribution of national income and the availability of manpower and materials. In view of the vital role which the budget plays in the economy of a Welfare State, the legislator and the citizen are more than ever interested in understanding from the budget, what the government is doing and what the costs are. Parliamentary debate on the budget has a dual character, first, it is the medium through which Parliament exercises control and ensures financial accountability of the executive, secondly, it is an instrument for promoting economic stability and implementing programmes of economic and social improvements. Budgetary reform in recent years have been mainly motivated by the second consideration. The question is not merely of keeping a check on expenditure incurred by the executive, but it is one of evolving a pattern of expenditure and taxation which conforms to the objectives which the legislature regards as basic in policy formulation. The budgetary process and procedure can make far better informed judgements concerning the allocation of government resources and can encourage a more effective use of resources devoted to particular purposes. By its very purpose, the budgetary procedure, form and presentation require to be continually reviewed and reshaped to suit the requirements of the times and circumstances, and to enable government programmes and policies to be understood, appreciated and approved by Parliament and the public to whom the government is responsible.

Reorientation of Budgetary System in India

The Estimates Committee (First Lok Sabha), in their very first report, dated November 21, 1950 observed that the system of accounting and budgeting, as it then existed, might have had

its advantages in the past, but it has become so cumbersome that a revision of the system was urgently called for. This was all the more important, because the country decided to attain a rapid growth of the national economy by increasing the scope and importance of the public sector and in this way to establish in the country democratic socialism. The Committee recommended that a committee consisting of Budget Officer of the Government of India, a representative of the Comptroller and Auditor-General of India and a member of the Estimates Committee might be constituted to examine the whole matter thoroughly for suggesting improvements in the existing system. In pursuance of this recommendation, a Committee consisting of Shri Mahavir Tyagi, then a Member of the Estimates Committee, as Chairman, Shri M. V. Rangachari, the then Joint Secretary in the Ministry of Finance and late Shri B. N. Sengupta, the then Accountant-General, Central Revenues as Members, was appointed to consider the change in the form of budget estimates. On the basis of the recommendations of this Committee, several changes in the Civil Budget Estimates were made with a view to arrange the demands in a rational manner, to make the Explanatory Memorandum fuller, both in respect of schemes and notes thereon, etc. As a result, the budget became more intelligible. Certain reformative measures in the field of budgetary procedure were taken in August, 1958. Yet it is considered that the budget of the Indian Government does not serve the purpose which a modern Central Governmental budget is intended to. There is still much scope for improvement, and there is need for revising the system to suit the needs of the developing economy of the country.

It will be in the interest of efficient execution in the developing economy of the country that a high power Committee, consisting of representatives of Ministry of Finance, Comptroller and Auditor-General of India, Public Accounts Committee, Estimates Committee, Parliament and a few experts be appointed to examine Government budgeting in all its aspects and recommend suitable budgetary procedure, form, classification, management, etc. to suit the present needs of the country. Reforms here and there will not do. What is needed is complete rationalisation and modernisation of budgetary procedure.

Though it is too late, yet a modernised budgetary system should be installed for efficient execution of Governmental schemes in future.

Publicity and Economic Survey

In a democratic country, the success of the governmental programmes depends upon the co-operation which it will receive from the people and the manner in which the people will co-operate with the Government in its endeavours to fulfil the projects of the plans. Co-operation is, however, a two way traffic. The Government will have to inspire the people with confidence that what they are doing is really for the good of the people. There is nothing in the Budget Speech at present which can inspire the people with a spirit of confidence and lead them to give their willing co-operation. Under the present circumstances when people are made to sacrifice a lot by way of taxation, Budget Speech should appeal to the public for their willing co-operation. This will create a good psychology in the public. Citizens have begun to take greater and greater interest in the budget of the Government. In such circumstances, people have the right to ask the Government that information on all vital points should be made available to them so that they may decide for themselves how they can co-operate with the Government. Both the Finance Minister and the Government, have failed to recognise their responsibility in the matter. It is their duty to fulfil their obligation in this connection to give to the people all relevant information in regard to the principles and programmes of the Government. The Government should tell the people, how the working of the planned economy has achieved the fundamental objective of raising the standard of living of the people of India.

The budget of the Government of India, the Explanatory Memorandum, the Economic Survey and the Finance Bill are circulated along with the speech of the Finance Minister. In the year of 1964 the Economic Survey was issued about 10 days ago of the presentation of the budget, while in the previous years it was issued at the time of presentation of the budget. This is a good procedure. This will make the Members of Parliament understand the state of country's economy of the last year which forms the basis of next year's budget. Both, the Economic

Survey and the Explanatory Memorandum contain a lot of information which is quite essential for the critical study and the intelligent understanding of the annual budget of the Union Government. The credit for supplying so many documents to the Members of Parliament goes to the Finance Ministry. Smt. Renuka Roy, in gratitude, said in the Lok Sabha, "I think he (the Finance Minister) should also be thanked particularly for the Economic Review and other pamphlets and booklets that have been supplied. Because in these five years, since the Second Parliament started, there has been tremendous improvement in the material that has been supplied by the Finance Department, when budget discussions take place. It has made it possible for the Members of this House to understand the budget in a manner which it was not possible when I first came back to this House five years ago".[2] Thus the representatives of the people are supplied with greater information as compared with that supplied in previous years and it is also hoped, more and more information regarding governmental activities will be supplied to them in future. But it is also required in a democratic government, anxious to secure co-operation of people, that the Government should make all the documents available to the public in time and at a reasonable price. At present, it is difficult to get these documents in the recognised institutions and Universities. It is essential that not only should the Government encourage a critical study of these documents and papers, but it should make them available immediately after the budget is presented in all important towns to the people at a reasonable price.

Government should also make wide publicity of the annual budget so as to create understanding in the minds of the people about governmental programmes and policies and their impact on people. We should follow, in this regard, the example of the U.S.A., the U.K., etc. In the U.S.A., the Bureau of Budget makes a wide publicity of the budget. But such publicity is lacking in our country. Though in a country like India, such publicity will not be useful to the common man, but for the intelligentsia of the nation it will have good effects. Another way of creating public interest in governmental budgetary

[2] L. S. Debates Vol. LXI No. 7 Col. 1219

affairs is that Parliament should show an interest by debates and discussions. Dr. A. R. Prest observes, "Public interest and understanding of the finances of Government is often lacking in these countries (underdeveloped countries): without it, one cannot hope that a country's finances will be run as well as they should. But one way of developing and encouraging public interest is for the Legislature to show that it takes an interest itself by full debate and discussion, at all stages, of the financial process".[3]

Besides these budget documents, the Ministry of Finance issues several brochures like, 'External Assistance,' 'Indo-U. S. Technical Co-operation Programme,' 'Report on the working of State Undertakings', etc. Reports of the different Ministries are also issued at the time of budget demands. These publications should also be made available to the public in all the towns of the country. As the Government is anxious that the public should understand and appreciate the effect of the working of the plans in our national economy, this practice will create a healthy public psychology.

Since 1958-59, along with the budget, an 'Economic Survey' containing certain factual data concerning the economy of the country is issued. This Economic Survey is prepared by the Ministry of Finance. In the U. S. A. and the U. K. an independent expert body prepares the report which is presented simultaneously with the budget. It will be more useful if, on the pattern of Cohen Council in the U. K., an independent expert committee is set up in India to study and review the changes in price, productivity and levels of income including wages, salaries and profits and to report thereon from time to time. This was expressed several times in the House by Shri Ashoka Mehta and Dr. P. J. Thomas when they were Members of Parliament. Dr. P. J. Thomas said, "The question of making further improvements in the budget system, is for instance, the preparation of more comprehensive economic report than the present Economic Survey, on the lines of the Cohen Report in the U. K. can also be considered in this connection".[4] The Estimates Committee also felt that, "It is necessary that the economic situation in the country should be analysed related to objectives and proposals

[3] *Public Finance in underdeveloped countries*, p. 133

[4] 'Hundred Years of Budget in India', Dr. P. J. Thomas, *Statesman*.

and explained by Government experts in a manner which would enable the correct position to be understood and appreciated by all. It should explain the position relating to foreign exchange, balance of payments, trade and commerce, production, national product and income, cost of living, imbalances in the economy, world trends, etc. The analysis should attempt, as is done in U.K. and other advanced countries, an analysis of economic situation of all aspects of the entire national sector. Such an analysis should be made available to the Parliament sufficiently early to be made use of during budget discussions".[5] So far such a survey is prepared by Ministry of Finance. It is gratifying to note that in the year 1964 the Government issued Economic Survey well in advance of the presentation of the budget for 1964-65. This gives sufficient time to the Members to understand the situation of country's economy. Another remarkable feature of that year was that for the first time private efforts were also done to present the position of India's economy. The Indian Merchants Chamber Bombay presented a 'Pre-Budget Economic Survey and Review of Budgetary Trends' for the year 1964. This is analogous to the usual Economic Survey released by the Finance Ministry a few days before the presentation of the budget for the year of 1964-65. This survey along with the Economic Survey issued by Ministry of Finance will present every aspect from two different angles, one official and the other non-official. In fact the step taken by the Indian Merchants Chamber is commendable.

Introduction of Multiple Budget System

The first requirement of modern budgeting is comprehensiveness. It means that the budget should present a complete picture of the financial programme of the government. A comprehensive economic policy is impossible without a comprehensive budget. The budget should reflect all receipts and expenditures of the government and thus should embrace the whole of the public sector, controlled by the government. Under a long standing convention, established during British Rule, the Railway Budget is presented separately and net result, either surplus or deficit, is carried over to the general budget. When this convention was

[5] 20th Report, p. 17

established, Railways were the only State undertakings. Now Government have undertaken numerous projects costing crores of rupees. The practice adopted for Railways has not been applied to such undertakings. Thus Indian budget lacks comprehensiveness. It is suggested that in order to make Indian budget comprehensive a multiple budget system can be adopted. The practice adopted for railways can well be applied to certain other branches of governmental activities. This practice can be spread to Defence, Transport, Heavy-Industries Ministries and others. This will reduce the burden of the Finance Ministry and responsibility will be decentralised. Prof. Hicks and Prof. Hansen maintain that a multiple budget can maintain the comprehensiveness. According to Prof. Hicks a multiple budgetary system involves different types of budgets, viz. ordinary budget, emergency budget and capital budget. Prof. Hansen suggests that there should be operating budget and capital budget. For administrative facilities such a budget system is unsuitable. The governmental activities should be classified into administrative and productive system. For administration there should be a general budget. For productive enterprises a separate budget is needed. There can be a separate budget for defence. Shri K. Santhanam, the Chairman of the Second Finance Commission expressed the same opinion in these words, "Though under the present Constitution, the railway revenues are part of the Consolidated Fund of India, the separation convention of the British days continues to be in force. Under this convention the Railway Minister is, subject to the over-riding authority of the Cabinet, his own finance minister also. The Financial Commissioner for the Railways is a member of the Railway Board and though directly responsible to the Railway Minister, he is at the same time entitled to refer to the Finance Minister any matter which deserves to be considered in the wider context of the finances of the Government of India. This arrangement has worked well and enabled Parliament to scrutinise railway finances and shape railway policy. I cannot help wishing that the Estimates Committee had boldly advocated similar separation for the strictly Central Ministries, viz. Communications, Production, Steel, Defence and Transport. If the presentation of documents and the budget discussion of the Ministries are modelled

on that of the Railway Ministry, the Ministry concerned functioning also as the Finance Minister of the department, Parliament will be able to get a grip over these vital Ministries which deal with many crores of receipts and disbursements. It will also relieve the Finance Minister and his chief officers of the responsibility of watching through the entire budget debates extending over months to the great detriment of their own special functions. There need be no fear that the general control of the Government of India will be affected as each of these budgets will have to be discussed and approved in the Cabinet and the financial commissioners will have the duty to report to the Finance Minister about important developments and the right to approach him in case of doubt or difficulty".[6] This practice of presenting separate budgets can in the beginning be applied to Defence and State Enterprises with advantage.

Period for which the Budget should be prepared

Generally the budget is prepared for one financial year. But when Government has undertaken long range development projects under economic plans, one year is too short a time. The idea of an all-embracing budget for a whole year is out of date and the budgets should plan for longer periods of five or more years, is a proposition made by many economists. The Government of an underdeveloped country, like India, must plan for economic development of the country, and a wide range of their financial plans do not fit conveniently into the restrictive limits of a single financial year. Before the First World War, in Hesse, a German State, three-yearly budgets used to be prepared. In some States of the U.S.A., two-year budget practice is found. Alabama prepares four-yearly budget. In England, it is felt that one year is too short a period to control public expenditures. Mr. Maulding, the Chancellor of Exchequer of the U.K. in 1963 was also of the opinion that budgets should cover a longer period. In no field are long-term estimates more needed than in that of public investment, which is obviously a patent instrument for influencing spending power over a longer period. Such a practice may have certain complications in the beginning, but its advantages will be too many. Though

[6] *Hindu*, June 12, 1958

this is regarded as a thorny matter which no country seems to have solved satisfactorily. There is need for evolving techniques by which forward estimates covering upto five years, both of revenue and expenditure arising from current policies can be prepared. In India, the revenue budget can be prepared for one financial year. As regards capital budget, taking into account, first, the period of one economic plan is five years and secondly, the tenure of the Government is also of five years, a period of three year will be more suitable. The Government will be able to present two budgets on capital account during its tenure of office. The whole plan should be divided into five yearly budgets, and a chain budget like Marshallian index number should be prepared. This practice will make the Government budgeting more comprehensive. If a 3 year capital budget is prepared, the Government will be able to plan in a better way, and Parliament will be able to review the progress made.

Presentation of Budget causes Hectic Activity in the Market

There is one anti-social element attached to Indian budgetary system. The presentation of budget is associated in India with hectic and speculative activities in the market. This is due to the taxation measures attached with the budget. This makes the budget presentation exciting and mysterious. On the morning of the day when the budget is presented in Parliament there is rise in the prices of various commodities whether taxed or not. There is tendency in the merchant community of the country to start hoarding stocks of commodities on which there is least possibility of imposing taxes. It takes some time to stabilise the market. Shri S. A. Dange during budget discussion, remarked, "On the budget day there is hectic activity and there is speculation. The prices rise and stability might come later on. Why should there be this anarchic mechanism? Why not introduce some prohibition like that when we are introducing a taxation budget".[7] Shri Guha, in the course of budget discussion, fixed the responsibility of checking the rise in prices on the Government. He said, "It is regrettable that the Finance Minister has stated yesterday that if after his taxation proposals some shopkeepers have increased the prices of particular com-

[7] 2nd Lok Sabha Debates. Vol. LII No. 20 Col. 4796

modities, even though they are not taxed, he is not responsible for that. But that should not be the stand or the defence to be taken by the Finance Minister or the Government, Government is responsible to see that the consumer is not cheated or exploited by the proprietors". He further said, "Government have taken for the benefit of the country and for the benefit of the poorer section of the people. The exploiters take the money for their own benefit and they are not helping the consumer or the Government. The money practically goes underground and escapes even income tax".[8]

One glaring example which can be cited in support of the above statements is with regard to price of sugar in 1957-58. Till the presentation of the budget for the year 1958-59, sugar was selling in the market at the rate of Rs. 32 per maund. In the budget for the year 1958-59, excise duty on sugar was enhanced. On the next day the price of sugar rose to Rs. 40 per maund. This rise in price helped the profiteers to reap huge profits overnight. A stockist, who was having a stock of say 10 lakhs of rupees, earned an extra profit of about Rs. 2.5 lakhs overnight. This profit escapes all taxes. The wholesellers sold the sugar to the retailers at the rate of Rs. 40 per maund and issued cash memos of Rs. 32 per maund. The balance was a clear windfall for them. This money is hoarded in the form of gold, etc. This practice is not uncommon. Every year this happens in a number of commodities. This has given rise to unaccounted money which is creating problems in the country. Inflation, to a large extent, is due to circulation of this money. The reaction of the budget on the market helps the anti-social element to exploit the poor consumers. If we analyse it, we shall find that this extra profit, as we might call it, comes out from the pockets of the poor consumers. A consumer consuming sugar worth Rs. 10 a month, had to spend Rs. 12.50 for the same amount of sugar. Hence there is drain of wealth from the poorer sections of the community to the richer sections. This is undesirable in a poor country like India. It makes rich classes richer and the poor still poorer, and the former eat up the fruits of growth. This is one of the reasons why the fruits of development of our three economic plans have not reached the common

[8] *Ibid.*, Col. 4323-30

man. This is one example. Every year this happens in case of commodities on which taxes are increased.

It may happen that after some time, prices may stabilise, but what about short period? In short period, businessmen may earn lakhs of rupees as profit by exploiting the poor consumer. In a country like India, where there is acute shortage of commodities as compared to their demand, chances of exploitation are much greater. The Finance Minister, on May 9, 1962 said in the Rajya Sabha while replying to the budget discussion, that "it was wrong to suggest that as a result of his budget proposals, prices have gone up by 25 per cent". He added that "he sent his own men to retail markets to find out the prices of various commodities yesterday and today and he found that even the price of a match box which had earlier gone up from 6 p. to 7 p. and had come back to its original level". But in this connection, it may be noted that the budget was presented on April 23, 1962, and prices came to original level, if at all they came, in about 16 days. During this period of 16 days, businessmen and stockists must have reaped huge profits by selling their stocks at risen prices. Sixteen days are too much for business activities.

Thus, it is necessary that this reaction of the budget on the market must be checked by every means. Some ways had to be found out to prevent any increase in prices after the budget proposals were announced. Shri Morarji Desai when he was Finance Minister once said in Parliament that the most effective way was public opinion and the public refraining from purchasing certain things after the budget. But it is doubtful whether public opinion can check rise in prices. The simple law of Economics operates in the movement of prices. During war-period, there was shortage of goods and public opinion was against black-marketing and profiteering. But did the black-marketeers and the profiteers refrain from earning profits? Moreover, black-marketing and profiteering influence public morale adversely and lower the public character, which cannot be raised easily. Once public morale is lowered its consequences in the public life can be very well imagined. As regards the public refraining from purchasing certain things soon after the budget, it may be observed that, it is very difficult for people to refrain from purchasing specially consumer goods. A wealthy

man or an officer drawing a fat salary may stock commodities for consumption for several months and can refrain from purchasing for some period, but what about a poor man who lives from hand to mouth?

Another effective way suggested, by which profiteering could be checked, was by starting more and more co-operative stores. This is one of the right measures, provided co-operatives are started in right spirit. They will only give some help in maintaining price level, and it will be wrong to expect miracles out of them. Since then the number of co-operatives established has increased tremendously, but most of them are not really co-operatives. What is seen is that a number of shop-keepers establish a co-operative store only to sell controlled commodities. Such co-operatives will exist only upto the time there is control. They are not co-operative stores in the real sense. Government should check establishment of such co-operatives. This is quite unhealthy growth of co-operative movement. The Finance Minister in 1962 assured the House that he would try to find ways and means by which prices of commodities on which indirect taxes had not been levied did not go up after the presentation of the budget. But nothing has been done in this direction.

If taxation proposals are separated from the budget, and the budget is made only an expenditure budget, as it is found in the U.S.A., it will go a long way in checking anti-social effects of budget presentation on the markets. Taxation proposals can be brought any time during the year. The worst characteristics of the tax laws in India are that they are not stable at all. Taxing laws are changed every year, causing enormous inconvenience to the public. Hence it is desirable that taxation measures should be stabilised and the practice of off and on changes in taxation should not be adopted. With the growth of the economy returns from taxation will increase automatically. It may also be observed here that change in taxation laws is proposed in the Finance Bill, which never goes to the Select Committee, and the budgetary legislation is usually too crowded to allow adequate consideration of amendments proposed. If a Bill goes to a Select Committee, there is scope for various points of view duly canvassed and some reasonable solution being arrived at to meet the conflicting points of view. The

Finance Bill is intended for the purpose of making changes in rates of taxation, etc. Amendments of a substantial nature in taxation laws through Finance Bill are effecting far reaching changes through the back door. Therefore, changes in the tax rates should be made through the Finance Bill only. For changes of other nature legislation should be amended.

Financial Year

Since 1867, the financial year in India commences on the April 1 and ends on March 31. There is a feeling in some quarters that the present financial year is unsuited to Indian conditions and needs a change. The question of changing the Indian financial year has been considered a number of times. In this connection, the Chamberlain Commission on Indian Finance and Currency of 1915, observed that, "The revenues of India, whether shown under railways or customs or direct under the head of land revenue, fluctuate to an extraordinary extent with the success or failure of the agricultural operations of each year and these again depend permanently on the South-West monsoon which spreads over the Indian Continent and Burma in the months of June to October. Under present arrangements the Indian budget is presented before the end of March and the Finance Minister has accordingly to prepare his estimates in ignorance of the most important factor on which the results of the year will depend". The Commission expressed the opinion that, "from the financial point of view the present date is most inconvenient possible for the budget" and suggested that the financial year be changed from April 1 to November 1 or June 1. In this connection, it may be observed that the suggestion was made at the time when it was said that the Indian budget was a gamble with the monsoon. But today it is not so, since land revenue does not play such a vital role in our budgets Monsoon is not of so much interest to the Central Government, since their main receipts are from customs, excise duties and income-tax. With the growth of industries, dependence on agriculture is not so much as it was fifty years ago.

The question of changing the financial year had been examined by the Government as well as by the National Development Council, and it was concluded that no change is required. Re-

cently the Estimates Committee examined the question of change over of financial year and recommended change in the commencement of the financial year from October 1, instead of April 1.[9] The arguments put forth by the Estimates Committee in favour of change were :

(i) "The budget is passed by the end of April every year and thereafter the various budget allocations are notified to the Ministries and the Heads of Departments who in turn pass them down to their subordinate authorities. Normally, it takes a month or so before information is passed on to the authorities who are in direct charge of the implementation of the schemes. By then, in most parts of the country the monsoon breaks out and development work in many spheres is held up. The actual work, therefore, starts only after the monsoon, that is in about October and continues till the end of the financial year. However, even before two or three months are over, the departments are called upon to submit fresh schemes for inclusion in the budget which is presented to the Parliament towards the end of February. The result is that many works not only remain incomplete during the year in which they are undertaken but large sums of money earmarked for them remain unspent or there is a rush of expenditure towards the end of the financial year."

(ii) "The present arrangement also results in waste of national man-power in that it ties down the nation's representative nearly 750 in number at the centre alone for three months' session for the discussion and voting of the budget and then for another three months because of the onset of the monsoon, thus preventing them from touring their constituencies and meeting the public."

For these reasons the Estimates Committee recommended that the financial year should commence from October 1.

The Building Projects Team of the Committee on Plan Projects set up in March 1957 under the Chairmanship of Mr. S. K. Patil, recommended that for proper distribution of construction activity throughout the year, the budget year should begin

[9] Estimates Committee, 1957-58 (20th Report), p. 20

from July 1 instead of April 1. The Committee pointed out that under the prevailing system the budget is voted in March and allotments are made only during April-May. It is not possible to prepare contracts and order stores before the monsoon; and the work rarely commences before October. This results in a six-month working season in a year. This results in a rush of expenditure towards the end of the financial year which in a majority of cases is not conducive of efficiency. With the budget year beginning from July 1, the earlier months can be utilised for planning. The work can be undertaken without break for a period of nine months after the monsoon.

The suggestion of the Estimates Committee and the Project Team is based on certain misconceptions and it is not advisable to change the financial year. A criticism against the financial year is that, with the present financial year, the budget session of Parliament has to be held in winter and spring and the M.Ps have to be busy during the session when they could tour their constituencies with the least discomfort. If the financial year began about October 1, Parliament could have its budget session during the rainy season when touring is difficult. Thus the M.Ps. would be free to tour in their constituencies in winter and spring. This change over would give better facilities of contact between the M.Ps. and the public.

But the monsoon extends over a period of about three months. The business of the Parliament cannot be finished by sitting only for three months in a year. Parliament meets for about six months in a year and the period is increasing with the expansion of Government activity. Hence the Parliament must sit beyond the rainy season. The budget session lasts only six to eight weeks. Hence the fullest utilization of the rainy season for parliamentary work does not necessarily require a change in the financial year. Further, the period of monsoon is not uniform all over the country. Different parts of the country have different periods of monsoon. Hence the argument is not tenable.

Sometimes, it is also suggested that this change will have an advantage in that the budget can be prepared on the basis of actual expenditure and receipts over a larger period. This suggestion too, is, misconceived. Whenever the financial year is made to begin, the budgetary procedure requires about 8 months'

time. Whatever date is taken for the commencement of the financial year, a full year's actuals will not be available. Hence, there is no use in changing the financial year.

The suggestion has another drawback also. In case the financial year begins on October 1, the local officers will have to prepare the budget in January or February. Preparation of the budget requires a lot of office work. In this case the officer will be restricted to their offices during the season when they should be busy in outdoor work. This will reduce the speed and quality of work. The present financial year has two great advantages, viz.

(*i*) The officers prepare their budget during the rainy season, when outdoor work is less and that the working season cuts across the present financial year. The best period to make a plan is the rainy season which regularly intervenes between two working seasons. At that time, the Government officers know the actual working of the last working season and the amount of work that remains unfinished and therefore they can make quite an intelligent plan for the next working season. Part of the next working season, being in the current year and part of it in the next, they can prepare their revised estimates for the next year with full knowledge of progress of the last working season.

(*ii*) Another reason in favour of retaining the existing financial year is that the final decisions about the budget are taken at the end of December or in the beginning of January. That is the time when the main crop of the year has already been harvested in the rice areas or is very near harvesting in the wheat areas. These two crops determine to a very large extent the economic conditions of the country during the next year. Hence the estimates relating to the next year can best be made at that time. Moreover, continuity in the financial year is important. With a change, the chances of comparing financial figures ceases and thereby cause difficulties in planning, execution and checking of performances. Hence change in the financial year is to be avoided, because this will bring more complications than facilities.

RULE OF LAPSE

'Rule of Lapse' is an important rule of budgetary procedure regarding parliamentary control of the timing of expenditure. This rule is very strict. According to this rule, budget provision of funds lapses after March 31, because Parliamentary appropriation of funds is for disbursement during the year and not beyond it. It is sometimes suggested that the 'Rule of Lapse' be abandoned and the financial provision once made for a scheme should be made available for disbursement beyond March 31, when the work has been sanctioned and money allotted, the money should remain available until the work is complete without any limit of time. It will have two advantages. First, there is at present a tendency to rush expenditure towards the end of the financial year with scant regard to the efficacy of the same. If money is assured even after March 31, such unseemingly rush would not be there. Secondly, it will lessen the conflict between administrative Ministries and Finance Ministry. When an administrative Ministry is assured that the budget provision would remain available without limit of time, it would not grow so impatient towards the end of the year.

"The Rule of Lapse" follows from the Constitution and its abandonment will require a change in the Constitution. Besides, there are certain disadvantages of abandonment of the rule of lapse. Under the present system, the departments are anxious to get through the work during the course of the year. With proper supervision and vigilance, it is not difficult to see that the expenditure is distributed throughout the year in such a way that there is no unnecessary rush at any time during the year. It is supervision and vigilance which are really correct remedies. The discontinuance of the rule of lapse, will slow the speed of execution of work, because unspent money would no longer have to be surrendered and the surrender would no longer be regularly reported to Parliament. There would no longer be the fear of criticism by the P.A.C. and Parliament. Departments would slumber under a sense of security and they could do the work any time as and when they please. If there is any quarrel for selection of a site or such things, then departments may follow a policy of inaction in order to avoid any

political conflict. The rule of lapse puts the departments on their mettle and acts as a strong incentive for them to expedite the execution of work.

The abandonment of the rule of lapse will make budgeting and accounting very difficult. Budget provisions will have to be carried forward indefinitely. The Government would not know when the demand for money would actually arise. Regulation of the ways and means position would be extremely difficult. It would be almost impossible to get a clear picture at any moment and Parliament's control will become loose. It is the need to approach Parliament for budget provision every year that keeps the departments alert and on the right track and also provides an opportunity to Parliament to appreciate the progress of work. During a financial year, the Finance Ministry transfers money surrendered by one department to others requiring it. If the rule of lapse is not in force, no department would like to surrender the money thereby preventing its better use by others who may need it badly.

In this connection, it is important to note that sanction to execute a work never lapses. It is only the budget provision which lapses. When a work is sanctioned, it may be executed over a number of years. It is very desirable from the strictly business point of view, that officers in charge of the work should make the annual estimates of requirements of finance so that the position can be reviewed from year to year. Hence without the rule of lapse, financial planning would be impossible.

In this connection, the Estimates Committee in its 20th report observes, "As a result the sanctions are delayed and various authorities have to take up the projects late in the year and the work remains incomplete and money lapses . . . further, there would be no certainty that the money unutilised during a year would be available in the following year for completing it". For this the Committee recommended that "A procedure should be evolved whereby the necessity of a further sanction after the budget should be done away with and also whereby an assurance would be given to the various authorities including State Governments that in respect of funds provided for approved projects the unspent amount would be available in the next financial year". If the recommendation of the Committee is adopted, it will

breed inefficiency and inaction in the administration. It is due to the fear of lapse that projects are completed during the financial year. If money is carried forward indefinitely, administrative officers will delay the execution of schemes because of assurance of funds and money will still lapse. An inefficient person or organization will do the work with the same speed, without caring the time limit is short or long. If the period is long or indefinite, his speed will become still slower.

COST OF CIVIL WORKS

Under the present budgetary system, the cost of construction of buildings and their repairs are charged to head Civil Works, and the work is administered by C.P.W.D. which is a service department. If a building is to be constructed, say for a college or a police station, the provision for the funds for that building is made not under the head Education or Police, but under the head Civil Works. Under this practice, the total cost of a particular Ministry is not known.

For this, it will be better to provide for such works under the head of that Ministry or Department which will ultimately use it after construction and not under Civil Works. The P.W.D. should execute the work as an agency.

MACHINERY FOR TESTING THE BUDGETARY PRACTICE

In the interest of administrative efficiency, it is desirable that a suitable machinery should be devised to test the budgetary practices and wherever defects are found, remedial measures should be adopted. The machinery should look to particular points like :

1. How do various agencies decide how much to ask for? A check should be established on the general tendency of asking for more funds than the actual requirements, owing to the fear that Finance may reduce their request.
2. Having decided what they would like to get, how do agencies go about trying to achieve their objectives?
3. What do they actually achieve? This can be known by installing performance budgeting and performance recording.

Responsibility accounting can also be adopted, which will increase efficiency in Government administration.

4. Expenditure is economically incurred. Every possible economy should be effected. In India, a special reorganization unit is doing this work and on the basis of its report economics will be effected.

DEVELOPMENT AND NON-DEVELOPMENT EXPENDITURE

Large sums of money are spent annually on developmental schemes and side by side expenditure on schemes of non-developmental nature is also being incurred. The Public and the Parliament would naturally like to know, from the budget papers, how much expenditure has been incurred or is proposed to be incurred on developmental and non-developmental schemes. An annexure included in the Explanatory Memorandum indicates broadly major head-wise schemes of development for which provision is being made. There has been a suggestion from certain quarters that plan expenditure and estimates should be shown separately from the non-plan expenditure and estimates. In this connection, the Estimates Committee in its 20th Report observes: "It would be desirable to have a separate statement giving a review of the plan expenditure and estimates both for developmental and non-developmental purposes and classified under Revenue and Capital and presented at the time of the Budget". Such information would be very useful for analysing government's developmental and non-developmental schemes.

In regard to financing the developmental and non-developmental expenditures, it is objected, in certain quarters, that revenues from fresh taxation should only be utilised for developmental expenditure. Financing non-developmental expenditure out of fresh taxation receipts is objectionable. Acharya J. B. Kriplani in the course of Parliament debate observes: "The Finance Minister says as it is always said that these burdens (from fresh taxation) are for the fulfilment of our plans. If it is so he must see to it that the money raised is spent on the plan. But our experience is that in the Second Five Year Plan most of the money got from taxes has been spent on non-plan expenditure".[10]

[10] L. S. Debates 2nd Series vol. LII No. 2 Col. 5099

Mr. M. A. Master, in a speech in Bombay on April 27, 1961, also held the same opinion. He said, "In his unprecedented Budget of May, 1957, Mr. T. T. Krishnamachari, the then Finance Minister levied fresh taxation of Rs. 106 crores for financing the projects of the Second Plan. Fresh additional taxation for the same purpose was imposed by his successors during the period ending March, 1961. There was a continuous rise in this new additional taxation every year during the Second Plan period and the aggregate amount of such taxation reached the huge figure of Rs. 240 crores per year 1960-61. It is, therefore, a matter of serious disappointment and grave concern that the amount thus raised by taxation has been frittered away to a very substantial extent for meeting the requirements of the non-plan activities of the Government. This has, unfortunately, become now the tradition of the Indian Exchequer".[11]

These observations by distinguished personalities do not take into account that there are certain factors which have increased the cost of non-development activities also. To meet this increased cost, it is inevitable to increase taxation. Increased taxation has to be resorted to both for meeting developmental expenditure and also the increased cost of non-developmental activities. Moreover, from the fiscal point of view the economy is indivisible and it is rather impossible to seggregate developmental and non-developmental activities of the Government.

INTRODUCTION OF ECONOMIC AND FUNCTIONAL CLASSIFICATION

At present, budget documents do not indicate, with sufficient clarity, the programmes and schemes on which expenditure is proposed to be incurred and subject rather than the object of expenditure is given undue importance with the result that many developmental and other projects get submerged under a plethora of sub-heads and minor heads, thus making it difficult to draw any rational conclusion. The present budgeting system appears to be dominated by the administrative and accounting approach and does not assist in the economic analysis of the programmes in the budget. For this purpose, it is necessary that there should be a functional and economic classification of

[11] The Role of Central Budget in Planned Economy

governmental expenditure so as to focus attention on the various functions and activities of the Government and their relative importance. This should be more extensive and detailed than the one followed at present.

MORE INFORMATIVE BUDGET SPEECH

It is required, in the present socialistic democratic set-up of the country, that the Finance Minister in his Annual Budget Speech, should give a comprehensive, co-ordinated and convincing account of how the Government has dealt with the enormous funds, what assets have been created thereby, what returns these assets have been bringing to the country every year. The country has no idea whatsoever today of the financial implications of this enormous outlay. The Finance Minister should also give a profit and loss account of all the public undertakings to show what returns are being earned from the huge public investments.

There is another defect in our budgeting technique as it does not give a clear and correct picture of the true financial position of the country to the people. The practice of under-estimating the revenue and over-estimating the expenditure has created magic in budgeting by turning estimated deficits into surpluses. If we examine the budgets from 1950-51 to 1959-60, the aggregate results of the budgets introduced showed that there would have been total deficit of Rs. 49.87 crores, which turned into a surplus of Rs. 483.55 crores. This is due to under-estimating revenues and over-estimating expenditures. Hence the budget requires careful scrutiny and close estimation so that this magic budgeting is avoided.

It may also be observed here that the Finance Minister, while presenting the budget, gives the people an idea of the expected income and expenditure. Next year, he gives the revised figures of receipts and expenditures. He, however, does not deal with the amounts actually received and the amounts actually spent when the accounts are closed. This is an important omission from his speech. Probably this is due to the reason that the Finance Minister is following the practice adopted by his predecessors. Unless the Finance Minister deals with the actual results when accounts are struck the people

do not get the vital information to which they are fully entitled. It is, therefore, of great importance for understanding our budgets that the Finance Minister should carefully deal with the implications and significance of the actual results of the budget when the accounts are closed.

CONTROL OVER PUBLIC DEBT

The position with regard to Parliament's control over public debt is not very clear. Article 292 of the Constitution lays down, as regards borrowing powers of the Government, that "The Executive power of the Union extends to borrowing upon the security of the Consolidated Fund of India, within such limits, if any, as may from time to time be fixed by Parliament, by law and to the giving of guarantees within such limits, if any, as may be so fixed". Under this Article, it is contemplated that Parliament should enact a law fixing the limits of borrowing as well as of giving guarantees by the Central Government. But no such law has so far been enacted. The interest payable on public debt is non-votable. It is desirable that there should be some direction and control by Parliament on the commitments made by the Government about raising its debt and its repayment, but interest payments should remain non-votable. Atleast Government should seek prior permission of Parliament before issuing some public loan or giving a guarantee. The rate of interest and terms of loan should be approved by Parliament. The existing manner of getting Parliamentary approval to the Government's borrowing programme through the annual budgets does not provide satisfactory opportunity of an intelligent appraisal in Parliament of the issues involved. In the U.K., Canada, Ceylon and the U.S. there is the practice of obtaining approval of the Legislature either before borrowing or to restrict the borrowing programme to the limits prescribed by the Legislature. The Public Accounts Committee in its 9th Report presented to the Lok Sabha on March 31, 1961 suggested that a study may be made of the procedure followed in this regard in other democratic countries so as to arrive at a method of obtaining specific approval of Parliament to the borrowing programme that will suit the needs of the country. There should be appro-

val of Parliament regarding loans as and when it is decided to float them. It is also suggested that the explanatory Memorandum to the budget should give a more detailed account of the utilisation of the borrowed money. The Public Accounts Committee in its report presented to Lok Sabha on March 18, 1964 pleaded for the second year in succession that the Union Finance Ministry should make a study of the procedure followed in various democratic countries to obtain parliamentary approval for Government borrowing. The Committee favoured an Act of Parliament to fix a limit on Government borrowing. The two opportunities, Parliament now had of reviewing the Government borrowing programme—at the time it approved the Plan and again when it approved the annual budget—were not sufficient to make an intelligent appraisal of the issues involved. Passage of an Act for fixing borrowing powers of the Government has become overdue.

THE QUESTION OF EFFICIENT AUDIT

The question of audit of Government transactions and activities can be examined from three points of view, viz.

(*a*) Regular audit by the Comptroller and Auditor-General of India,

(*b*) Administrative Audit including responsibility accounting, and

(*c*) Performance audit.

(*a*) *Audit by the C. & Ar. Gl.* The Comptroller and Auditor-General as an officer of Parliament, is an authority to see that money is spent for the purpose for which it was intended and that it has been spent in the most economical and business-like manner. This is an expenditure audit. Unfortunately, in India there is no receipt audit. There has so far been no authority to point out to Parliament any failures of the Executive in implementing the policy regarding taxation. There is no agency of Parliament to ensure that the moneys, which are due, have been properly collected and accounted for and the Government does not grant unjustified or unauthorised remissions to individuals. A wrong expenditure of ten thousand of rupees has

exactly the same effect on the finances of the Government as failure to collect deliberately or otherwise an amount of rupees ten thousand due from certain tax payer. But, for historical reasons, perhaps there has not been so far any real emphasis placed on the audit of receipts. This is being gradually brought under audit control and recently the Government of India has agreed that income-tax receipts and central excise receipts should be subjected to audit. But there is need to develop a system by which all the revenues of the Government come within the purview of audit so that Parliament may have real and effective control over the implementation of the policies it set down at the budget time.

(*b*) *Administrative Audit.* In the present circumstances, when the Government is incurring huge expenditure on different projects, it is essential to devise a system of administrative audit and responsibility accounting. In Paragraph 10 of its Report on the Accounts of 1947-48 the Public Accounts Committee recommended that the Ministry of Finance in consultation with the Comptroller and Auditor-General should formulate comprehensive rules and regulations for introducing administrative audit in all large spending departments such as C.P.W.D., etc. The administrative audit system envisaged the setting up of an organisation independent of project executive for carrying out an internal audit of the project transactions. This organisation was to be in addition to the normal accounting and auditing organisation under the control of Comptroller and Auditor-General. The system was intended to ensure an effective control on costs at every stage of construction of a project.

The Committee of 1951-52 reiterated the recommendation. (para 23 of the 1st Report). The Committee of 1952-53 recommended the introduction of the system in various river valley projects under the control of the Government of India. The recommendation was accepted by the Ministry of Irrigation and Power. The Ministry of Works, Housing and Supply also implemented the recommendation and accordingly established an organisation of a Chief Technical Examiner for carrying out an inspection of important works executed by C.P.W.D. after completion and also during their progress. This organisation is doing useful work as the Report of the Ministry of Works,

Housing and Supply for the year 1958-59 indicated in these words: "A Chief Technical Examiner's Cell was set up on 31-5-57 to ensure effective independent and uninterrupted technical audit of works executed by the C.P.W.D. throughout the country".

The object of the Chief Technical Examiner's Cell is not merely to inspect works and find out irregularities or to detect overpayments but also to act as a preventive by bringing to the notice of the departmental officers from time to time and by constant check the drawbacks in terms and conditions of contracts or defects in specifications resulting sometimes in overpayments or execution of work below standard so that they could be avoided in future. The object is three-fold, constructive suggestions, rectification of defects and recovery of overpayments.

The Cell carried out a number of enquiries including scrutiny of contractors' bills and Muster Rolls, etc. as a result of this there has been a general awareness in the minds of officers and contractors with regard to proper execution of work. This practice should be adopted by other Ministries also.

A new concept of responsibility accounting is gaining ground in advanced countries. This can be adopted in the Governmental organisation. Responsibility* accounting will ensure proper detection of persons failing in their responsibilities. Every time the Public Accounts Committee in its reports mentions cases where officers fail, in their responsibilities and that causes huge loss to the Government. Responsibility Accounting can be of some help in minimising losses which occur due to improper fulfilment of responsibility.

(c) *Performance Audit*

It is often noticed, and is subject to severe criticism in the public and Parliament, that a particular dam is washed away or a particular building is having cracks or roads have not been properly constructed or money given for starting industries has been used in a purpose other than for which it was given and alike. Though the work of construction is supervised by the departmental officers, still such cases have become very common. This is not due to the reason that the cement of today is weaker

or the engineering skill is poor. The reason lies somewhere else. It is due to the fact that morals have become weaker and not the cement.

For this, it is necessary in the interest of proper use of public money that an organisation on the lines of the Comptroller and Auditor-General's office should be established. He should be an officer of Parliament and he should be appointed by the President. He should see :

1. that moneys have been spent for the purposes for which they were intended;
2. the results, as specified, have been achieved in quantity and quality within the time limit and at minimum cost;
3. the full value of the money has been obtained.

At present, Parliament has no machinery or agency that can ensure that the results intended to be achieved, once a budget is sanctioned, have in fact been realised. In order to have effective control over the spending of the Government, and to see that monies have in fact been spent for the purposes for which they were intended and full value of money has been obtained, it is necessary that Parliament should rely on some independent organisation which should report to it in such matters. This agency will have the power to go behind the vouchers and will see the actual, performance of the policy which is not within the purview of the duties of the Comptroller and Auditor-General.

Just like test audit, such an organisation should actually verify the performances of the Government Department. For verifying construction, samples of work should be tested off and on, on the spot. A few square feet of road may be dug and it should be seen that the material for which payment has been made is actually used or not; or a few bricks may be taken out from a building to see if cement and earth have been mixed in the proportion stipulated in the contract. Though the work of such an agency will be very difficult one, yet it will raise the morale of the officials and other persons. The report of such an agency should be analysed by a Parliamentary Committee like Public Accounts Committee. It may be named Public Performance Committee.

As the size of the Government expenditure and revenues increases and as their impact on the national economy becomes more intense, the necessity of establishing some scientific procedure of administering the budget becomes more urgent. Preparing the budget is not merely a question of arithmetical calculations, because it affects the destinies of the nation at least for decades. An adequate budget cannot be obtained through procedures that were designed to cope with public expenditures and revenues which were only a fraction of the amounts involved in present day budgets. In a developing country like India, the Government should continuously review the budgetary procedures and practices in order to adopt advanced methods made in this field by other countries taking into consideration the special features, economic and otherwise obtaining in this country. This is necessary because as the national economy expands, the budgeting field needs to be tilled by fresh inventions and innovations.

CHAPTER XI

BUDGETING FOR DEFENCE AND DEVELOPMENT

INDIA IS a peace-loving nation and has firm faith in the peaceful co-existence of nations. Unfortunately two of our neighbours, China and Pakistan having different ideologies and political set-up have turned their guns against India, committed aggression and swallowed a large area of Indian territory. Now an uneasy truce has been effected and at any time the front may become alive. It cannot be said definitely how long this state of affair will continue. We have been forced by the circumstances to be a nation in arms instead of being a peace-loving nation as far as tradition and heritage goes. Under the circumstances it becomes necessary to step up defence preparations on a permanent footing so that our hard-won freedom may not be eclipsed.

Before the treacherous aggression by China in October, 1962, the country was devoting its resources for economic development for bettering the lot of the common man. It was but natural, because after acquiring independence, the next task before our leaders was to raise the standard of living of the people, as it was also a part of Indian Movement for Freedom. The nation was marching on the road of economic development at a sufficient pace. Our progress on the economic front became eye-sore to our neighbours and it was interrupted by their naked aggression. Now new responsibilities are added on our people. We cannot ignore either defence or development. Under the present circumstances the need for development has become all the more important. In fact we now need 'defence oriented development' and 'development oriented defence'.

DEFENCE AND DEVELOPMENT

Though the country is to step up its defence preparations, yet it cannot set aside its schemes of economic development. There is greater need of economic development at a rapid rate under the present emergency than it was before. Defence and develop-

ment needs will have to be met simultaneously. Carrying out development projects is necessary, because, if defence expenditure is raised without accelerating economic growth in general, the burden will prove too heavy. Development has become a part of the scheme of national defence and defence has become a part of the schemes of national development.

Defence expenditure is destructive, because the money spent on war material does not add to the production of wealth; while development expenditure is productive and it adds to the production of goods and services for the consumption of the people. During war time all out efforts are made to win the war. All the resources at command are put for fighting a war out. All our energies and financial resources are mobilised for only one end. During a war nothing is ever decided on financial grounds; as Prof. A. C. Pigou writes, "Finance in modern war is only a camp-follower". During peace time all energies and resources are diverted towards those projects which are important for the economic life of the nation. Generally war has been a problem for a short period for the nations, during which they could mobilise their resources to fight out the war and after that they turned their whole hearted attention towards economic development as it happened in the European countries. India faces a different situation. There is a long term challenge from two nations, whose sole aim is to destroy India at any cost. This challenge should work as a stimulus to the country for further development and to the people for toiling hard and sacrificing for the cause of the nation's prestige. The challenge from outside stirs the manhood of the nation and opens up a dimension of effort that will not otherwise emerge easily. It has been clearly proved during the time of Pakistani aggression against India, when Indian nation rose up like one man. As neither of two—defence and development—can be ignored, the Government has to make double barrelled attack from the defence and development fronts. This will increase financial burden on the people. The massive efforts are to be made to fulfil the needs of defence and development. In a situation of national emergency, like the present one, the national defence and development efforts should be viewed completely interdependent. Thus Government finances should be geared to the present situation

and there should be over-all efforts to face the challenge boldly and unitedly.

Financial Principles for Defence and Development

Professor J. M. Keynes advocated certain principles for financing peace time developmental projects. In an open letter to president Roosevelt he asked to give up the orthodox principles of finance and adopt new techniques for achieving a higher stage of employment of man and material resources. In his book "How To Pay For War", Professor Keynes advocated certain principles and methods of war finance. India faces the challenge of defence and development and both the aspects are to be viewed from the long range point of view. Hence it has become necessary to evolve principles of finance which help the country in meeting this dual challenge. A modern war with its immense requirements of man-power, supplies and equipment is highly expensive in financial as well as in real terms. The cost of the war is largely paid out of commodities taken away from normal consumption and this means a good deal of sacrifice from the side of civil population. The objectives of development finance are quite different. It stands for the production of more goods and services for the consumption of the people. India is under a situation in which it has to coordinate effectively between these two, which are quite opposite to each other. We have to strike a balance between the methods of war financing and development financing.

Mobilisation of Resources

India has to mobilise its financial resources upto a level from where defence and development needs can be fulfilled adequately and effectively. Every effort is to be made to mobilise the financial resources so that the cause of national defence and development may not suffer for want of financial resources. This is a semi-war situation; hence method of financing a war cannot be adopted totally. We cannot also rely on peace time financial methods. There is one more fact, and that is financial help from foreign countries cannot be relied upon during a war time. Generally a non-aligned country like India cannot get financial

help for fighting a war with Pakistan or China from the foreign countries, howsoever friendly relations may be with them. What happens that during war time, financial help for developmental projects is also discontinued. Under the circumstances of the present world-politics, a nation like India should stand on its own legs and should not expect much help from other nations. We have to explore our own resources to the maximum by blending methods of war financing and peace-time development financing successfully and boldly. Mobilisation of resources should be through following methods :

(a) *Taxation*

The emergency has created new needs and called for greater sacrifice on the part of Indian people. It will not be prudent to provide for the paramount claims of defence by sacrificing the claims of development. Taking defence and development together, taxation programme should be launched. To this end, following steps should be taken :

(*i*) *Rationalisation of tax system.* The entire tax structure should be suitably changed to ensure equitable distribution of the tax burden and maximum growth of the economy. Tax laws and procedure must be simplified. Most of the persons are not afraid of paying taxes to the Government, but want to remain away from the complicated tax laws and procedure and this results in evasion of taxes. It is also necessary that there should be a closely co-ordinated taxation policy between the Centre and the States. There is greater scope of augmenting revenue from taxes in the States. A pattern should be devised in which dependence of the States on the Centre for finances is reduced to the minimum, and the State Government should be able to command the means of supplying their wants. There is greater scope of taxation in the agricultural sector, which has benefited more due to developmental schemes and has escaped in paying its due share.

Sometime back this year (1965), the United States Agency for International Development lent the services of three experts to study the Indian tax laws and procedure dealing with income and corporate taxes, and recommend measures for checking tax evasion and avoidance of taxes and simplifying the procedure

for assessment and collection. In this connection it may be observed that relying on foreign experts is not a commendable practice, because the country's conditions are not fully known to them. Nature of our economy, its stage of development and nature of our people are quite different from those countries whose experts we call. For advice on economic matters greater reliance should be placed on Indian economists, because they are well acquainted with the Indian conditions and their advice will be according to the environments of the country. As an American or British cook cannot prepare Indian dishes, similarly a foreign expert's advice may be of little use to us. Well, some how, Indian tax system has to be simplified, the sooner the better it will be. The Finance Ministry of the Government of India is trying to evolve a simplified tax system.

(*ii*) *Checking tax evasion.* There is tax evasion and avoidance of taxation to a great extent in this country, thus the Government loses a fair share of its revenue. There is tax evasion among the business community, and in times when incomes are fast increasing in business field, such tax evasion creates many economic problems in the country like creation of black money, increasing inequality in the distribution of wealth and income, etc. Such practices wreck the nation's economic fabric. There is need to take strong steps for checking these practices. For checking evasion of income-tax, disclosure of income may be made compulsory to all, but this can be done when tax system has been simplified. Shri T. T. Krishnamachari, the Finance Minister while presenting budget for the year 1964-65, presented a five point plan to check tax evasion. His programme was :

"1. Every tax return will carry an affirmation about its correctness. This will induce people to take additional care in preparing their return.

2. The tax due according to the return will have to be deposited within one month of the submission of the return failing which the assessee will be liable to a substantial penalty. This will ensure quicker collection.

3. The existing provision in the Income-Tax Act regarding the levy of penalty for the concealment of income is proposed to be amended. In the new provision where the income

returned by a person is less than 90 per cent of the assessed income, the assessee should be deemed to have concealed his income unless he proves his bonafides.

4. It is proposed to take extensive powers to search for evaded wealth. The evil of unaccounted money has become great that its mitigation, if not its complete eradication calls for drastic measures. It is intended to use the new powers effectively to ensure that no person possessing income or wealth that has escaped assessment remains out of the reach of law.

5. It is proposed to do away with the secrecy provision in the Income-tax Act and other similar enactments."

The Finance Minister anticipated that the combined effect of all these steps will prove beneficial to collection of revenues as well as to ensure a fairer deal to the honest tax payer. Besides these measures, it is also necessary to overhaul and tighten the tax-collecting machinery. All the loop-holes in the tax collecting machinery needs plugging.

(*iii*) *Taxation rates.* It is generally believed that whenever more revenue from taxes is required, tax rates should be enhanced. But a number of progressive countries, after making experiments, have found that if more revenues are needed, it is imperative that the tax rates should be lowered and in no event increased. The most conclusive proof of the wisdom of reducing the rates of corporate and personal taxation is provided by Japan which has the highest rate of increase in the gross national product. By effecting sizable reductions in personal and corporate taxation year after year during the last twelve years or so, Japan has increased the national product at a phenomenal rate which has not been equalled by any other nation. Japan, however, is not the only country which has realised that lowering the tax rates makes the economy buoyant and gives a boost to investment and production. With lower tax rates, the tax collection actually mounts up. In Germany and France, during the last five years, direct taxes rates have been substantially reduced resulting in larger net revenues for the Public Exchequer. The U.S.A. is also making experiments in this direction. In the light of unfailing experiments of these countries, which have expanded gross national product and increased public

revenues by lowering the rates of taxes, there is need of making such experiments in our country. The lowering of rates of taxes creates a very healthy psychological effect on the tax-payer. In a static economy, the rule of 'enhancing tax rate for increasing public revenue' may be applicable; but in a modern developing economy lowering of tax rates gives fillip to the economy and naturally there is increase in tax revenue.

The tax rates should create incentive for production. They should be so adjusted as to accelerate the process of development. 'Production is first essential'. It is needed for defence as well as for civil purposes. Indian economy is a 'shortage economy'. Under such an economy evils like hoarding, black-marketing, profiteering, etc. develop which lower the public morale. Efforts should be made to get out of such a situation of shortage economy within a minimum possible time. Hence production must be stepped up by all means. Taxation policy must be production oriented.

(*iv*) *Defence tax.* As demand for funds to meet increased defence expenditure is going up and up, new sources of revenues must be found out. A special tax, known as 'Defence Tax' may be levied, the proceeds of which should exclusively be utilised for strengthening defence. The introduction of defence tax will have good psychological effect, on the people. Leaving persons working in defence forces and their families, every other citizen should be made to contribute to this tax. When our jawans can shed their blood on borders, why not the persons for whose security and freedom they lay down their lives contribute money? Is money dearer than life? The defence tax may be levied at a flat rate upto the incomes of Rs. 1800 per annum. The rate may be increased for those whose incomes are higher. A defence surcharge should be levied on railway fares, excise duties, import and export duties, etc.

(*b*) *Mobilisation of Gold*

According to official estimates, as disclosed by the Finance Minister in January 1963, there are private hoardings of gold to the extent of Rs. 4,100 crores at current market price which come to nearly Rs. 2,050 crores at international price of gold. Unofficially it is believed that actual gold hoarding in the private

hands is much more than what these official estimates tell. At the time of Chinese invasion the Government took historic steps to mobilise gold reserves of the country. Besides emergency measure for accumulating gold for purchasing defence needs, there were certain other motives behind the measures taken by the Government. They were: (*i*) Gold constituted a treasure whose ownership should be centralised. This would give flexibility in action, presumably as a war chest. Gold being readily acceptable internationally, it can be utilised for purchasing defence needs from foreign countries. (*ii*) Mobilisation of gold would guarantee the purity of foreign policy. (*iii*) There is smuggling of gold to a great extent. These measures would check it up. (*iv*) High price of gold in the domestic market not only promotes profitable smuggling but it also leads to increased use of gold as an investment asset. This tended to give fillip to the demand for gold. Gold itself being non-productive investment, its mobilisation will result in directing public savings towards productive investments. (*v*) Mobilisation of gold would act as a real resource, which would be relied upon to finance planned investments. To the extent gold was acquired, the existing resources could be supplemented by importing goods and services from abroad. (*vi*) Gold mobilisation was expected to yield certain social virtues.

For mobilising gold reserves, a number of steps were taken by the Government. The Government issued Gold Bonds. Under this scheme gold surrendered was to be assessed at the international rate of Rs. 53-58 for every 10 grams. The bonds were to be redeemed at par after 15 years. The rate of interest was 6½ per cent. Under this scheme bonds worth only 9 crores or so were sold in spite of Government's repeated assurances that undisclosed income if invested in gold bonds will not create any trouble to the purchaser. The scheme could not be a success.

The second phase of the issue of gold bonds has started recently after Pakistan's aggression. Now there is a gold bond scheme under which gold will be returned after the maturity of the bond. Several concessions are also to be given to the subscriber of 'gold for gold' bonds. This scheme in spite of several assurances from the Government is not bearing fruits according to the expectations. There are certain reasons for that. Firstly,

India shares the French passion for hoarding gold. People in spite of the assurances from the Government that gold will be returned for gold, do not like to part with their gold hoardings. Secondly, the events have proved that gold has been the most profitable investment in India. During all these years when prices have risen heavily, the value of gold has also appreciated to the same extent. A person holding gold got his investments appreciated. On the other hand a person depositing money with the bank gets his deposits depreciated as the value of money goes down. Thirdly, due to Gold Control Order, a gold market is not functioning freely. About thirty to thirty-five lakhs of marriages take place in India every year. If, on an average, gold worth 1,000 rupees is used in each marriage, then at least gold worth 300 or 350 crores of rupees is needed. Due to lack of free gold market people hesitate in purchasing gold bonds because when social needs like marriages, etc. will arise, they will not be able to purchase gold from the market. Fourthly, a large quantity of gold is held by the people in the form of ornaments, which cannot be spared for social reasons. Under such circumstances the Government should : (*i*) Remove Gold control order and allow functioning a free gold market; (*ii*) impose ceilings on individual gold-holdings, so that with the extra amount of gold either they purchase gold bonds or sell it in the market and (*iii*) try to lower down the market prices of gold.

(*c*) *Deficit Financing*

One of the methods of financing a war is deficit financing. The Government of India resorted to deficit financing for financing development projects envisaged under Five Year Plans. The greatest danger from deficit financing is of inflation. India has reached a stage in which further large-scale deficit financing will aggravate the situation. If deficit financing is to be resorted, first, unaccounted money must be vanished from hoards. For this, measures like demonetisation of 100 rupees and higher denomination notes together with compulsory disclosure of gold hoardings should be adopted. Secondly, the amount of deficit financing should in no case exceed the annual addition to the gross national product.

(d) *Borrowing*

If the entire war expenditure can be met by taxation, it would be ideal and free from future troubles. If taxation is adopted there cannot be any serious rise in prices. But there are practical difficulties of financing a war totally from taxation receipts. Borrowing has to be resorted. Keynes advocated a scheme of compulsory savings, and investing funds in Government securities. In India under the present situation a policy of 'taxing to the hilt and borrow the rest' should be followed. A greater part of the borrowings should be utilised for development projects and a greater part of taxation receipts should be utilised for defence preparations. While borrowing, the Government should also co-ordinate his borrowing policy with the capital market. In a capital-starved economy government borrowing may leave little capital to be invested in the industrial section.

Besides all these measures to be adopted for defence and development, holding the price line and curtailing private and public expenditure have also to be adopted. These measures are a part of the general scheme of financing defence and development.

(e) *Holding the price line*

The worst failure of the Government has been on the front of holding the price line. There has been steady rise in the price level causing concern to every one. Uncontrolled rise in prices acts as a disincentive for saving and also adds to further rise in prices due to shortage nature of the economy. People's capacity to save is also reduced. When there is continuous rise in prices people used to invest their savings in the form of commodities because it results in profits which are more than the normal rate of interest. Thus demand for commodities also pent up leading to further rise in prices. Rise in price level is harmful and creates many economic, social and political issues. Schemes which will fructify in a short period and increase the supply of consumption goods and hence should be given top priority.

(f) *Curtailing private and public expenditure*

There should be cut in the personal expenditure of the people. The nation should have the psychology of austerity. There are

a number of items on which personal consumption can be substantially reduced. A person can save on his clothes, recreations etc. at least by 50 per cent safely. The money saved can be invested in the Government securities. The Government should also create incentive for saving. For this, attractive saving schemes can be launched. The nation should feel that at present saving is more important than consumption and every paisa is to be saved. Economic and fiscal policies should be so oriented as to generate savings in the individual as well as in the corporate sector. Speculative investment not contributing to production should be checked.

There should be utmost economy in the public expenditure also. All extravagance and pomp and show should be put off. Peace time formal expenditure are to be suspended with. Government's measure in this direction creates a very healthy effect on the psychology of the people. When they see that every paisa they contribute to the Government is properly utilised, they become prepared for greater sacrifice for the national cause. Indian people having a low level of literacy and a tradition of hero-worship and leader-worship, are very much affected by the examples of those who man the Government. There should be strict priorities in the Government expenditure. The Public Accounts Committee, in its report presented on 15th January, 1963 expressed concern at increasing wasteful expenditure by the Government, particularly since emergency. The Committee found several instances of such expenditure in course of its examination of the appropriation accounts (Civil) 1960-61 and Audit Report (Civil) 1962. The Committee pointed out that "a persistent tendency to over-budget on the one hand and many instances of wasteful expenditure on the other point to the inevitable conclusion that there is considerable scope for effecting economies in the expenditure without impairing the Five Year Plan". The Committee suggested for an appointment of an expert committee to examine Government expenditure and suggest measures to curtail it drastically. The Committee should consist of senior officers of the Home and Finance Ministries and one or two of other spending Ministries.

An extra special situation like the present one, needs extra special steps. The revenue and expenditure policies of the

Government must bear an emergency-look, otherwise there will be no proper utilisation of our limited resources. The danger is there, and for meeting it country has to sacrifice. We have to depend more and more on our own resources and strength, because no power on earth can underwrite our defence. A self respecting people like ourselves cannot beg for help either for food or for defence material and will not like to become prey of selfish big powers. The Indian budgets since year 1963-64, have been geared to the emergency needs of the country and bring the economy to the stage of self-reliance. The objective cannot, however, be achieved through the budgets of two or three years. It is a process to be followed in the coming years to face the long-term challenge.

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